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The MAGAZINE of WALL STREET
and BUSINESS ANALYST

VEMBER 22, 1958 — 85 CENTS

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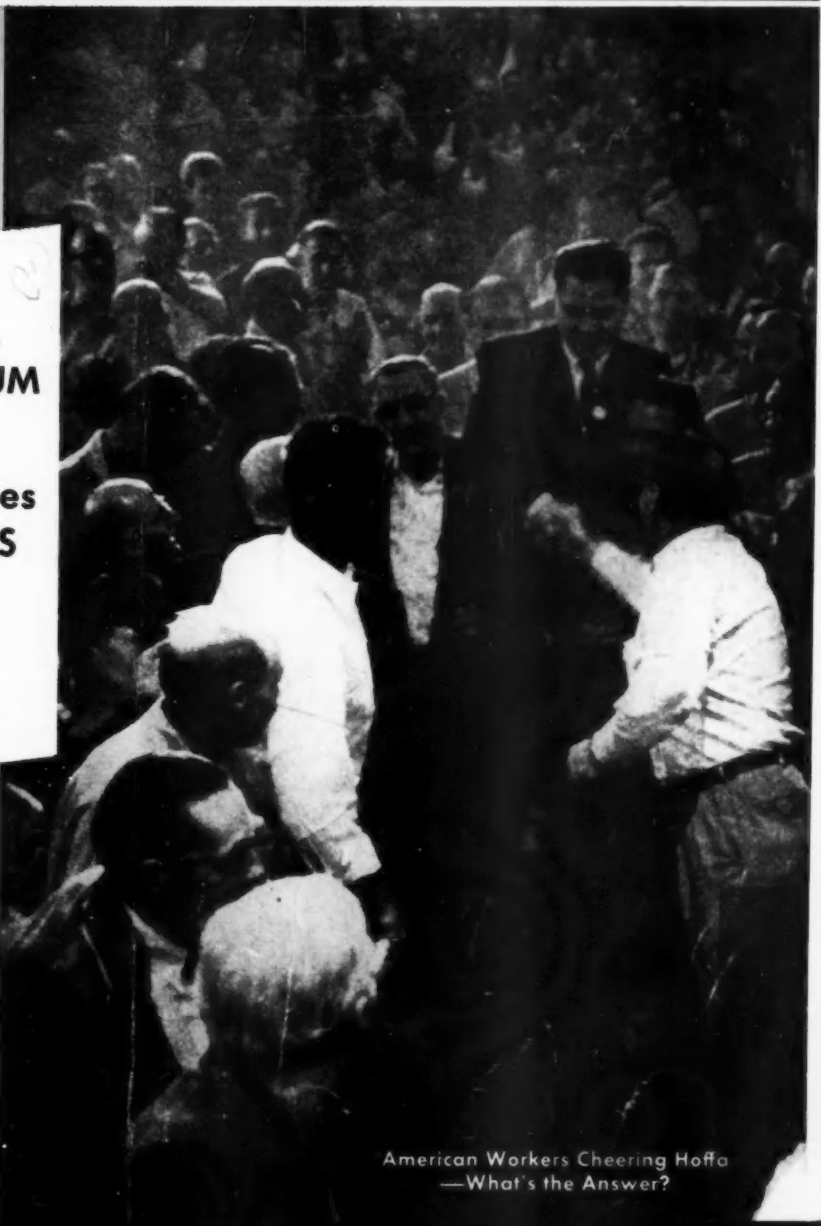
American Workers Cheering Hoffa
—What's the Answer?

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 103, No. 5 November 22, 1958

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Cover Photo—Courtesy New York Times—Followers acclaiming Hoffa despite Senate's condemnation of their leader.

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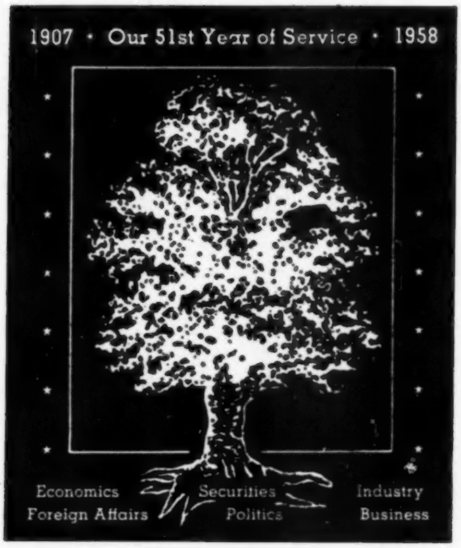
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address —Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WILL ORGANIZED LABOR DOMINATE THE NEW CONGRESS? . . . Top-heavy with Democrats who were backed by the unions, the quick answer might be yes. But this time the old yardsticks and divining rods go out the window: nothing could contribute more to defeat of their own purposes than brazen flaunting of influence by the labor bosses.

The big prize, the presidency of the United States, will be awarded in two short years. To spend strength in the capture of temporary gains, meanwhile exhausting favors and alienating supporters, just isn't in the planning of the boys who spell labor with a capital "L".

Labor hasn't "reformed." It just happens to be very largely in the hands of men who know their politics, and they know how far it is safe to push their luck. AFL-CIO President George Meany has taken a major step by gathering together every aspiration expressed by the unions in recent years and adding all the campaign pledges, then presenting the whole as labor's goal. It was a tongue-in-cheek affair but it had the effect of stilling straw-bosses of the labor movement who would be certain to plunge into print with demands, manifestos, codes and magna cartas tooled to their own regional, trade, or lodge needs.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Meany asked for everything. Significantly he set neither deadlines nor priorities. The current big boy of organized labor has no intention of weighting down Congress with an albatross of futile objectives. An effort will be made to erase the Taft-Hartley Act provision which permits states to enact right-to-work laws. Labor is encouraged by defeat of referenda on this point in five of the six states where it was on the ballot.

For a certainty, the Democratic leadership in Congress will not permit a bill to pass which negates the expressed preference of almost one-half the states of the union. It would get virtually no support from the Southern tier, and an inconsequential number of Republicans would vote for it. There's an unbeatable coalition. And Meany well knows it, but if he didn't include it in his manifesto there would have been a howl.

Most of what labor has asked involves expenditures mounting high in the billions. Meany doesn't know the total. He exploded when one of our own colleagues suggested: "You don't seem to give a damn what it would cost." But one of the reasons George Meany doesn't know the cost (which should be readily ascertainable because the projects all are "repeat-

ers") is because he was talking only for the record.

AFL-CIO has about 14 million members. It is the biggest, if not the only, labor group with substantial influence on Capitol Hill. It is on record for the principles of the Kennedy-Ives Bill. One of the reasons is to clear its own skirts; another is that its provisions would end the Hoffa-type of union bossism, playing fast-and-loose with union treasuries, and stifling democracy. Meany and his side-kicks, Jim Carey and Walter Reuther, see a glorious chance to puncture the Hoffa balloon. In the process they might be rendering a needed public service, and a major gain for clean unionism next year coulde be a boon to the country as a whole.

Congress may vote an increase to $1.25 an hour in the minimum pay for employed persons covered by the Federal law. This gain always is spoken of in terms of the entire body of employed persons covered. It gives the national headquarters something to crow about and the rank-and-file something to applaud as an accomplishment. Actually, only a relative handful of persons would get an increase if the law is changed: almost everybody already gets more than the minimum.

Whether there is a school-aid bill, relief for industrially distressed areas, and companion measures isn't, after all, a labor union issue solely. The decisions will be made on other grounds — many and divergent. Unions do not constitute a "threat" there. In fact, their lobbyists are going to be kept rather busy next year staving off blackmail picketing and secondary boycott bans — defenses which are very likely to fail.

But the undemanding attitude of labor does not rest solely on its decision that the time is not ripe for small gains — at heavy cost, including possible ouster of their political friends in 1960. While a dozen new senators will be on the scene in January, this does not mean that the unions have developed an increased "ownership." For example, Senator-Elect Hugh Scott of Pennsylvania, is a former chairman of the Republican National Committee. Senator-Elect Thomas Dodd of Connecticut, a Democrat, is counsel for rank-and-file teamster union members who brought Hoffa into Federal Court and occasioned appointment of union monitors to keep Hoffa's hands in his own pockets. Senator-Elect Kenneth Keating, New York Republican, succeeds Irving Ives in office, and, largely, in attitude against union overreaching. Across the board, the Class of 1959, U. S. Senate, is one to cheer Mr. Average Citizen.

Politicians and writers who habitually equate a Democratic political gain as a forward step for the worst elements of anti-social unionism would do well to peer below the surface this year. There are factors not immediately apparent in the election results and the program of organized labor which are not only consoling but even, in some cases, absolutely encouraging.

CHALLENGE OF RUSSIA'S NEW ECONOMIC OFFENSIVE . . Nikita Krushchev's bold and audacious plan to win the world to communism, with Moscow as its capital, is merely the blueprint of a goal — a hope — a design to inspire the sacrifice and titanic effort needed for its realization. It will take a great deal more than mere words to succeed, for Russia's problems are many and complex.

In the first place the industrial production of the free world is so large that it is extremely doubtful that the Russians can in the short space of seven years succeed in wiping out the differential, as available data shows that the production of the communist bloc equals only one-third of the world's industrial output. Possibly it was in recognition of this fact that Khrushchev changed the forward looking program of education that will now oblige virtually all youngsters, outside of the highly gifted ones, to enter the ranks of the worker at the age of 16. This evidence of a sustained labor shortage arises from the terrific losses during World War II and the huge man power they are obliged to divert to the military services.

And while the Soviet population is still a tractable labor force, Krushchev may find it difficult to use compulsion to induce the workers to migrate to the far distant, sparsely populated areas in order to successfully exploit Russia's rich mineral resources, and to develop the newly contemplated gigantic production.

The capital needs for such a project too will be enormous, and in the light of Russia's continuing attempt to secure capital loans from the United States and elsewhere, we can well wonder whether despite their resources they will be able to meet the heavy expenditures involved in simultaneously building the contemplated industrial machine and high level standard of living for their people.

With all their resourcefulness, Russia's financial problems have remained unsolved, and may be the basic reason for their continual efforts toward bringing about world disarmament, on their own terms of course, as well as the liquidation of our bases—so that they can return their soldiers to productive pursuits in their factories and save the enormous expenses of maintaining their armies around the world. This accounts too for the determination to have all stocks of military atomic missiles destroyed, and to stop A-bomb tests, in order to end the huge costs of developing these instruments of annihilation.

Also their purpose of waging economic warfare against us lies in the hope of producing such financial and economic disorder that our people will demand a cessation of the costly atomic experiments, and demobilization of our armed forces.

In the meantime, the political byplay in their psychological warfare against us, is producing political disorders and stirring up one dissident group after another. One time it is the Formosa Straits—another, financial assistance to Nasser for building the Aswan Dam—the barter arrangement with Argentina—the new tension over Berlin—and the part they have played in keeping the Middle East at a boiling point through the attempted capture or assassination of King Hussein of Jordan.

The type of challenge—mental, financial and industrial—that Russia is offering us will tax our ingenuity, and can only be forestalled by a new and imaginative program. To succeed we must plan carefully and realistically, and do away with the bewildered state of mind that seems to befog our efforts. We can no longer afford to tolerate complacency, or continue luxury as usual. We too must have a program that will inspire all the people to work for it. It is the only way to solve our problems, which includes avoidance of the deep depression in our country that Russia is aiming for.

As I See It!

By Charles Benedict

AH,—POOR OLD "RICH" UNCLE SAM!

WHEN you once have money it is hard to lose that spending psychology — and it becomes more difficult than ever to get used to being poor, and cautious.

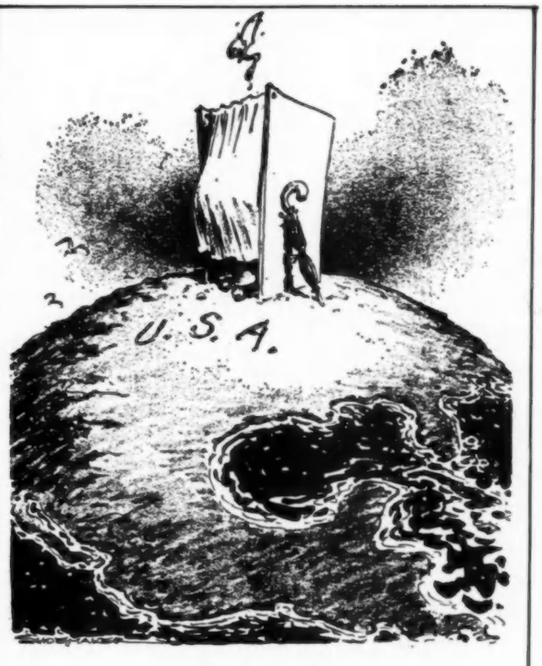
Our friends and our pensioners are acting on that psychology. Even though they are fully aware of our huge debt and our multi-billion dollar deficit, we are being asked to go further into hock on their account. At the same time our friends and allies in a number of places are selling the dollar at a discount, and that includes London, Italy and even West Germany, whose freedom depends on the support of American arms.

While the proud countries who want assured income from the United States for a period of years, "in order to plan properly" — they say — are also implying that if U. S. dollars are not delivered at the front door, they will open the back door to other interests. (Is it possible they mean Russia?)

It is well to realize that in most of these countries it is not the people who are talking, but rather their greedy leaders seeking power and wealth, of which only a trickle will get down to the masses — to the man on the street.

For that reason, the President's proposal for promoting the economic welfare of the nations of South and Southeast Asia struck a sour note, even though it was couched in such magnetic terms that one is led to believe that our barrel of bounty is overflowing—that we really are not scraping bottom.

The forum before which the President spoke was a session of the Colombo Plan Consultative Committee and the script was tailored for the occasion with such hopeful embellishment as "to enable free nations to achieve a momentum of economic progress which will make it possible for them to go forward in self-reliant growth." That, it will be recalled, is much the same language as was used when the Marshall Plan was inaugurated: it was to be a temporary crutch, to be tossed aside when the limping nations of Europe achieved return to self-reliant growth. Few placed its duration at more than two or three years; already it has passed the 10-year mark, and is costing more than ever and shows no signs of slacking off, let alone ending.



Every Man a King

It has got to be ended. The people of this country do not want to have their savings used to support the leadership in the various countries that is playing both sides against the middle, to kingdom come if we will let them.

Their press is filled with abuse of Uncle Sam and glorification of Russia, Maybe it is because Russia was not so easily taken in and has thus far withheld donating the huge sums demanded.

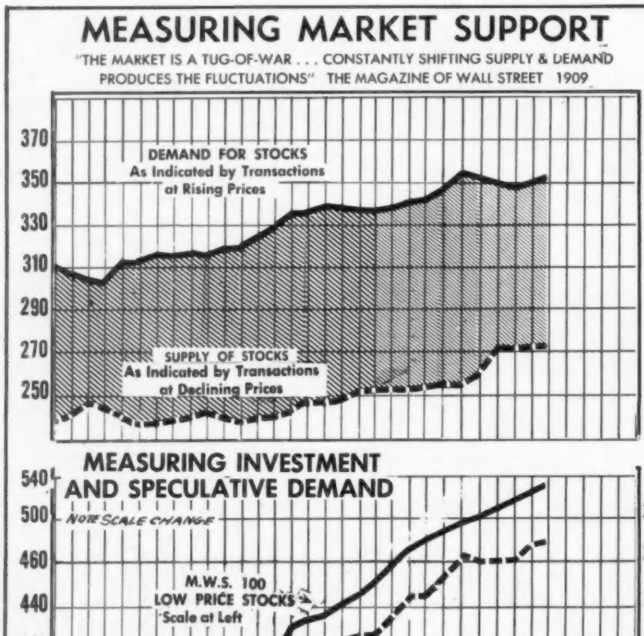
In fact, increasing talk is heard of making foreign aid a permanent function of the U. S. Treasury. President Eisenhower wanted the economic assistance pact placed on a five-year basis this year and the supporting argument of the countries involved added up to permanence, i. e., "if beneficiary countries cannot be certain the assistance will be forthcoming in future years, *(Please turn to page 214)*

Today's Market and Dollar Inflation

The huge Federal fiscal deficits and the belief that this kind of spending will continue under Democratic control of House and Senate, is feeding the inflationary psychology that dominates the stock market at the moment. This is an emotional market bound to go to extremes, and calls for a cautious policy since numerous stocks that are being overbulled are not likely to benefit from inflation.

By A. T. MILLER

The market's strength continued almost unabated over the last fortnight carrying stock averages to record heights. Last week the *New York Times* index, which had lagged behind the others, finally topped its August 1956 peak, pushing the last of the principal averages into new high ground. The *Times'* average, which is heavily weighted with rail stocks, finally added its confirmation as to the breadth of the inflationary market's advance, in the face of signs that the pace of business recovery is leveling off.



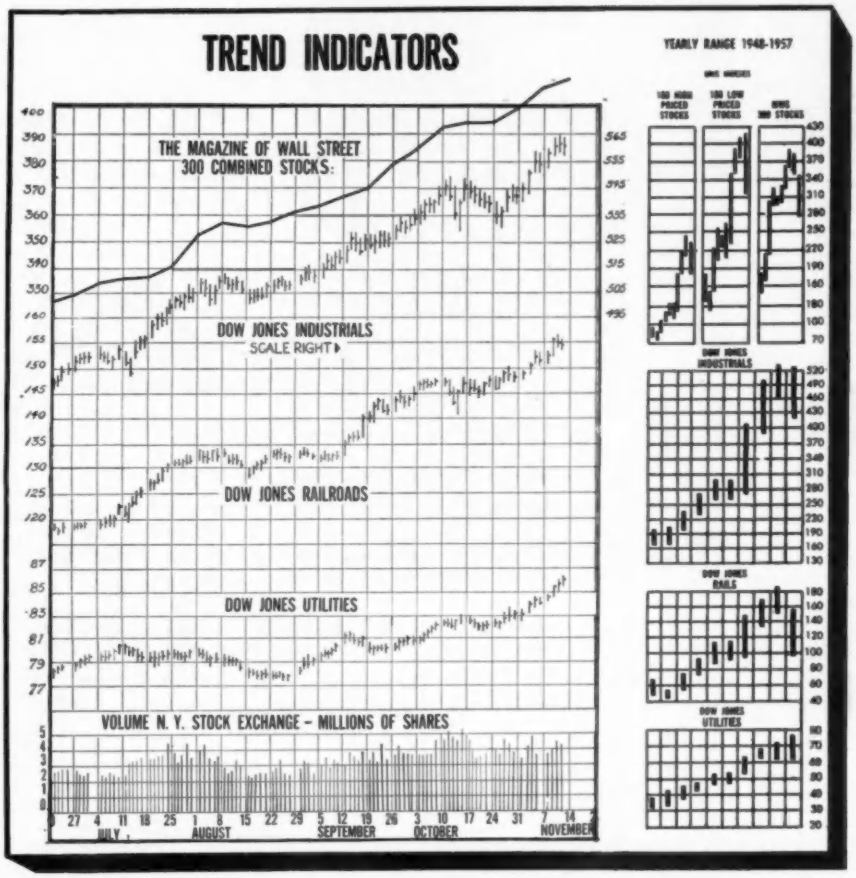
On the surface, economic conditions appear to support the strength of stock prices when viewed in broad terms. Industrial Production, for example, rose another point in October to 138 (1947-1949 equals 100) despite intermittent strikes and slowdowns in the auto industry, and further progress was made in reducing unemployment. When dissected in detail, however, the economic picture is not quite as rosy as it appears at first blush.

For one thing, while it is true that industrial output has recovered substantially from its April low, there are indications that the tempo of the recovery is losing momentum. Economists both in and out of government are in disagreement as to how much push still remains in the rebound, but certain facts stands out. Those who argue that a slowdown is in progress, point essentially to the smaller monthly increases in the Industrial Production Index in the last three months.

But their opponents rest their case on an entirely different set of figures. Gross National Product, they point out, has recovered almost three-quarters of the ground lost since April. However, this argument neglects the fact that when the rise is adjusted for increases in the price level, the rebound reduces itself to only a one-third recovery. In other words, the recovery to date has not really been a strong one, and the bullish contingent has been misled by "unadjusted" statistical evidence.

Of significance is the fact that the steel industry has already lowered its fourth quarter sights, looking for an average of 75 percent rather than 85 percent; heavy electric equipment suppliers now see a tremendous lull in 1959-1960 deliveries of generating equipment and are already laying off workers; the FHA is running to Congress for additional funds to keep the housing boom rolling in the face of a

reduced supply of private mortgage money, while in general little progress has been recorded in cutting into the massive overcapacity plaguing many major industries.



The Unpopular Dollar

Clearly, there are enough uncertainties in the business picture to warrant a more cautious approach to stock prices, and yet the market continues to boom. Part of the answer undoubtedly lies in the shortage of stocks, but an even greater reason may be found in the increasing evidence that the dollar is losing value and prestige even though the usual type of inflationary pressures are absent — and in recognition of the fact that it is Government spending that is shoring up our economy. Goods, and the capacity to produce are in plentiful supply, but huge federal spending both for defense and to advance consumer purchasing during the recent recession has led to a projected $12 billion budgetary deficit which can be met either by new borrowing or increased taxation, a situation that would tend to curtail consumer spending.

So great is the confusion abroad regarding our position that European investors are shunning the dollar, preferring the solid Swiss Franc and the Canadian dollar to American currency. In the face of this situation the probabilities are that we can expect a search will be made for ways of preventing further erosion of the dollar.

Not All Stocks Are a Sure-fire Hedge

But though the inflation-consciousness has some basis in fact, there is less evidence that the purchase of common stocks indiscriminately is the automatic protection that many suppose.

In the past the natural resource companies were regarded as logical inflation hedges, but huge world surpluses make them unsuitable under today's conditions. However, because so many companies have diversified their risks in various fields and have broad foreign interests as well, coupled with the great financial strength that was not present in previous periods of major crisis, like 1929, the situation is not the same. Discriminating selections will serve an investor well. Besides, we are now developing and creating entirely new investment opportunities which can in the long run be made to pay off handsomely in carefully selected issues.

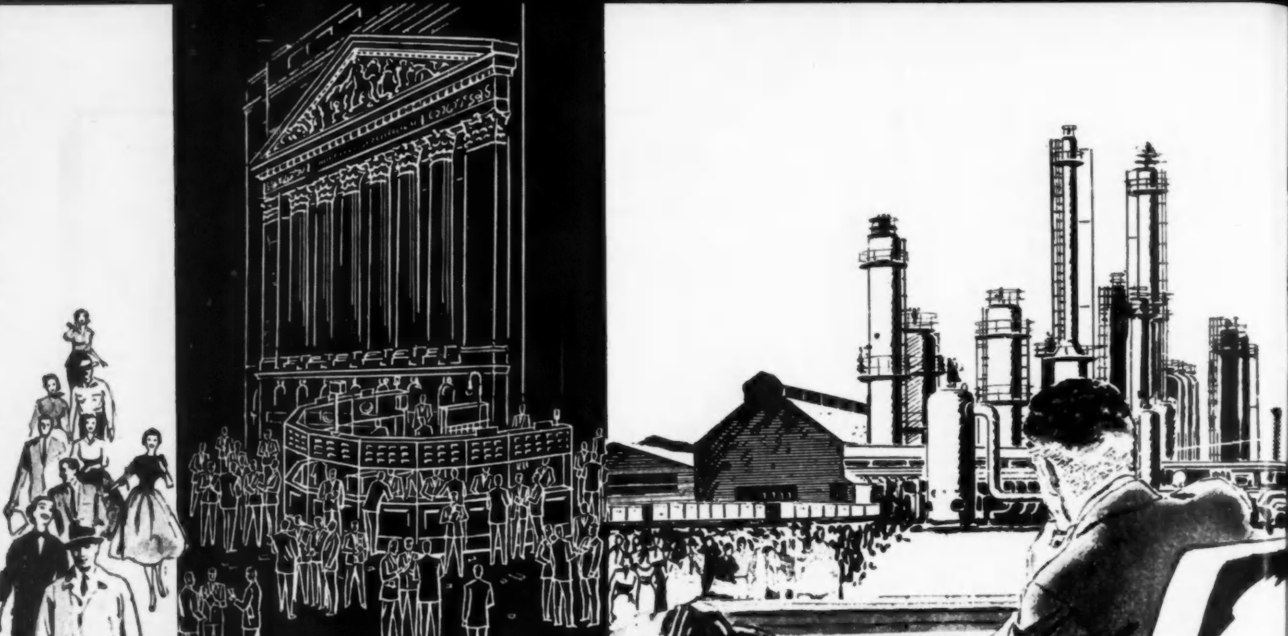
Each generation, apparently must learn the lesson anew, that inflation is only a plus element in the market for those companies that can demonstrate increasing earning power and a rising level of dividend payments.

The current enthusiasm for low priced "cats and dogs" shows a willingness to compromise with quality, since the good stocks have already advanced substantially. It is a sign of technical market weakness, and results from speculative activity — the buying for a quick turn — which is suitable only to professionals, as the average investor has to wait six months before he can take profits without substantial tax penalty. In the case of these issues no one knows what their price will be six months from now because of an uncertain future.

In the general disillusionment which has always followed broad moves in low-priced issues, the entire market has joined in the corrective movement. In the light of the situation it is difficult to say when this disillusionment will come, but some indications may be forthcoming by year-end, for until now dividend payments have held up surprisingly well, but the season for "extras" is at hand, and this year Santa may not be quite as good to shareholders.

Commitments in selected issues with demonstrated earning power are warranted, but in general we would treat the market with extreme caution, and confine changes to upgrading portfolio quality.

—Monday, November 17, 1958



Do Transactions By Insiders Have a Meaning?

By Robert B. Shaw

This feature is a result of intensive and original research, and the material and figures used as a basis for this story were obtained from the SEC so that we could have an accurate picture of the buying and selling going on in individual company shares as a clue to what the insiders thought of their company prospects.

EDITOR

WHAT do transactions by the insiders mean? What do they show?

In the investment world several groups may qualify, according to the meaning of the speaker, as insiders. Sometimes the term denotes full-time professional market operators who trade for their own account on the major stock exchanges — a breed which has diminished in recent years but is not yet extinct. Again, it may mean the managers of investment trusts, insurance portfolios and other large institutional funds.

Certainly, members of both of these groups possess important advantages over businessmen as investors. They have the means to collect and the time to study carefully a wide range of information. Moreover, the higher placed representatives of these organizations may occasionally hold directorates (although this could represent a conflict of interests) or at least are likely to enjoy close business and social contacts with corporate executives. Essentially, however, such professional investors or speculators have no sources of information that are not available to the general public.

The Real Insiders

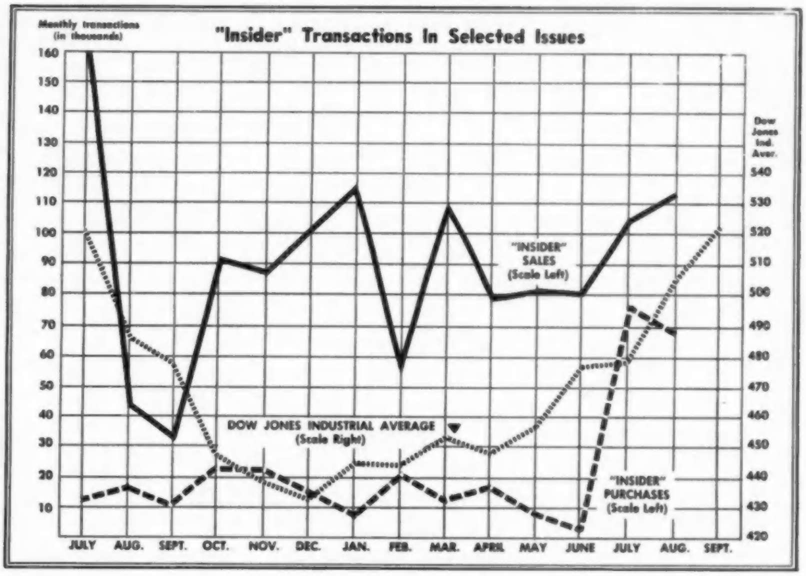
The true insiders are the corporate officers and directors who are intimately associated with the daily operation of their respective organizations, or at least sit regularly at board meetings where they are apprised of all information necessary for policy decisions.

These officers and directors should be better qualified to anticipate future earnings trends as well as opportunities and problems likely to confront their own companies than any outside analysts, however astute. Further, although this is less certain, they may be in a position to sense changes in

the general economy earlier than independent economists, who must await the protracted gathering, compiling and publication of business data. Accordingly, the purchases and sales of the equity securities of *their own companies* by corporate insiders might provide a clue to the future trend of business that is based on a particularly well-informed collective opinion.

After saying this much, it is necessary to add hastily that the former Chinese Wall between insiders and outsiders has been pulled down in the post-depression era, to be replaced only by a picket fence. No longer do executives regard their corporations as private preserves or conduct their operations in blissful disregard of the rights of outside stockholders. With perhaps occasional conspicuous exceptions, insiders no longer manipulate their stocks shamelessly, taking advantage of the ignorance of the general stockbuying public. To secure a wider capital market, as well as to comply with legislative requirements of full disclosure, corporations have adopted the practice of giving out as much information about their internal operations as possible. The large corporation which does not publish a detailed income statement today is distinctly an *avis rara*, and many are even willing to go further by supplying a breakdown of sales among various products or divisions. The intelligent outside stockholder is no longer obliged to invest in complete darkness.

Even so, there is much operating information which, for obvious reasons, management cannot disclose; it would not be in the interest of their stockholders for them to do so. Because they have access to more information, because they get it earlier, and presumably because they are better qualified to appraise it, corporate insiders should possess a considerable advantage in making transactions in the stock of their own companies. In turn, such transactions deserve at least brief examination by ordinary investors.



The SEC on "Insiders"

The only reliable source of information on transactions by insiders, dismissing tips that may be based upon the observation of scattered purchases and sales, is the "Official Summary of Security Transactions and Holdings" of the Securities and Exchange Commission. Reports on all transactions by officers, directors and "principal stockholders" (owners of more than 10% of any equity issue) in the stock of their own companies, if listed, must be submitted to the SEC, which compiles this data and publishes it in a monthly bulletin available to anyone for a subscription fee of $1.50 a year. Transactions by personal holding companies, trusts, close relatives and controlled enterprises must also be included in these reports. This requirement, which was instituted by the Securities Exchange Act of 1934, was obviously designed to inhibit "trading" by insiders and to prevent repetition of some of the outrageous manipulations that occurred in the free-wheeling '20's. The knowledge that his transactions must be published for the general public, as well as for fellow-officers to observe, are likely to deter any corporate executive from rash speculation in the stock of his own company. Disclosure is not, however, the only bar to insider manipulation. A companion section (16 (b)) of the 1934 Act makes the profits of any insider on a "round trip" transaction within a period of six months recoverable by the corporation, upon suit either by the corporation or any individual stockholder. These two sections pretty well outlaw short-term trading by corporate insiders in listed stocks. But there is no restriction upon profits realized from sale and repurchase after six months and one day or for any longer period.

The SEC summaries of insider transactions must, however, be interpreted with some discrimination. For one reason, reports are often not made promptly, and may never be complete. While "wilful neglect" by officers and directors to submit reports on transactions in their own stock is defined as a criminal act, mere tardiness can hardly be penalized and the enforcement job is difficult at best. It is not unknown for transactions to be listed in the SEC Summaries as long as five years after they have occurred; delays of three, four or five months are commonplace. Probably some executives are quite ignorant of the law which requires them to report insider transactions, and in other cases reports are obviously delayed until a larger program of buying or selling, extending over some months, is completed. Moreover, there is sometimes confusion in reporting the character of transactions. Acquisitions of stock by the exercise of options or as executive bonuses obviously do not have the same significance as ordinary market purchases, but some officers apparently report option acquisitions as purchases. These conditions clearly reduce the

statistical reliability of the summaries of "insider" transactions as a guide to other investors.

Many Reasons For Liquidation

Secondly, it must be realized that corporate insiders, just like everyone else, may be frequently obliged to make sales for non-investment reasons. These include the necessity of paying taxes and settling estates, of establishing a better market for closely held securities, and of diversifying concentrated holdings. Naturally, the insider liquidating stock for any of these reasons is looking for the best market possible, so that his sales may be interpreted as a belief that substantial near-term capital gains are unlikely, but sometimes, particularly when heavy estate taxes are falling due, such subsidiary considerations may overrule the purely investment appraisal. Occasionally, huge individual offerings of stock, either by secondaries or in the normal market, have far exceeded the aggregate of all other sales within the same period, raising a problem as to what extent such sales should be disregarded in interpreting the meaning of insider transactions as a whole. For example, among the one hundred leading companies selected to illustrate this article, the sale of 200,400 shares of Foremost Dairies through secondary in behalf of President G. D. Turnbow in September 1957, far overshadowed all remaining insider sales of 32,000 shares during the same month. Again, in November of last year, 229,449 shares of Dow Chemical, sold by the estate of Grace A. Dow, and 101,580 shares of General Motors, sold by certain trusts controlled by Alfred P. Sloan, as contrasted with "normal" sales of 85,771 shares, would cause a severe distortion if plotted upon the chart.

STOCK TRANSACTIONS
by
Officers, Directors and Principal Stockholders
One Hundred Largest Industrial Corporations*

		Purchases	Sales	D.J.I. mid-month
1958	Sept. †	24,720†	42,740†	523.40
	Aug.	69,664	114,270	506.13
	July	75,960	104,940	478.82
	June	3,750	80,010	476.56
	May	9,410	81,200	457.86
	April	17,160	78,391	447.58
	March	13,150	110,220	453.04
	Feb.	21,370	55,510	444.44
	Jan.	7,450	116,000	445.20
1957	Dec.	15,640	103,060	433.40
	Nov.	23,450	85,770	439.35
	Oct.	23,740	91,250	447.90
	Sept.	10,660	32,000	478.08
	Aug.	16,685	43,730	487.30
	July	13,440	160,100	520.16

* Industrial corporations only (utilit'es, railroads, banks, insurance companies, merchandisers excluded), as determined by 1957 sales volume. A few companies with minor investment interest are omitted, and replaced by the next-ranking companies.
Certain large liquidations in September and November, 1957, are omitted from the sales column. (See text).
† THE APPARENT DECLINE IN BOTH PURCHASES AND SALES FOR SEPTEMBER, 1958, MUST BE REGARDED PRIMARILY AS A LAG IN REPORTING.

Insider Purchase & Sales Since 1957

Keeping these reservations in mind, let us examine the actual record of insider purchases and sales for the fifteen month period since July, 1957. To obtain a significant sample, the returns have been totalled for the country's one hundred largest industrial corporations (railroads, utilities, banks, insurance companies and merchandisers excluded), as determined by last year's sales volume. Fifteen companies in which public investment interest is relatively limited have, however, been omitted and replaced by the following fifteen. It would take unnecessary space to name all of these companies, but as an indication of the organizations covered the first five (largest) on the list are General Motors, Standard Oil (N. J.), Ford, U. S. Steel and General Electric; the last five are Thompson Products, Babcock & Wilcox, Sunray-Midcontinent, American Motors and Singer Manufacturing.

Insider transactions for these companies for the period July 1957 to September 1958 inclusive are shown in the accompanying table. "Purchases" exclude shares bought by the excercise of options or awarded as executive bonuses, as such acquisitions are not entirely spontaneous and lack the significance of ordinary market purchases. However, stock so acquired is frequently sold immediately, in which case it is included among sales. The large special offerings in September and November of last year mentioned above are not reflected in the graph, but undoubtedly many smaller sales for non-investment reasons were also made. For example, there were substantial sales of International Business Machines around the 1957 year-end, presumably in connection with the settlement of the estate of the late Thomas J. Watson. Large sales of General Foods were also made by Marjorie Post. Within the last several months the Phipps holding companies have been steadily liquidating Grace and International Paper. Such special circumstances make the trend of insider sales extremely irregular and reduce its significance as an indication of composite executive opinion.

Insider purchases, however, follow a more consistent pattern and are free from abnormal distortions, other than possible errors or unusual delays in reporting. It will be noted from data in the table that insider purchases declined irregularly from October of last year to June of the present year, a period corresponding with the worst months of the business recession, but in July they jumped abruptly to a phenomenal 75,960 shares from a mere 3750 shares in the preceding month. In fact, insider purchases for July exceeded the total for the seven months preceding! August seemed to show a slight decline from the July peak, but this may reflect no more than a lag in reporting. What can be taken as significant in the September returns is that the incomplete purchases already reported are by themselves higher than those for any other month (excepting July and August) in the year and a quarter covered.

The fact that insider sales are constantly many times heavier than purchases should not be given any significance; no analogy should be made, for example, with the investors at the opposite end of the scale, the odd-lotters. Over the long run, of course, corporate executives must be accumulating stock on balance, but they do this more typically by stock options and other management compensation schemes than by market purchases. On the selling side, volume is multiplied by the constant

Sales By Insiders

July 1957 — Sept. 1958

	Curtiss-Wright	Gen'l Dynam.	Olin Math'n	Pittsb. Pl. Gl.	Sperry Rand	St. Oil Ind.	United Aircraft
1958							
Sept.	1000	2600	5360	—	2200	—	1040
Aug.	—	1400	1100	—	—	500	2000
July	1000	—	2000	400	500	3700	5550
June	4000	—	21,250	2000	900	700	1000
May	1000	4000	1250	1590	12,660	100	6600
April	7600	3500	1410	2040	4600	1250	—
March	—	6700	60,100	—	2600	650	600
Feb.	500	5900	—	—	3700	700	—
Jan.	8600	13,890	1500	—	2310	700	—
1957							
Dec.	4200	27,640	400	—	13,800	3400	—
Nov.	9400	3600	2600	—	17,600	1000	2100
Oct.	41,800	7700	500	—	1000	4750	1800
Sept.	7900	6900	—	—	—	—	—
Aug.	500	10,900	—	—	2000	130	—
July	9500	14,250	42,700	—	31,200	4800	2800

The only purchases of the same stocks within this period were:
Gen. Dynamics: July '58, 3000 shs; Aug., 900 shs.
Olin Mathieson: July '57, 610 shs; Nov., 500 shs; April '58, 300 shs; Sept., 200 shs.
Pittsburgh Pl. Glass: Feb. '58, 100 shs.
Sperry Rand: Sept. '58, 600 shs.
St. Oil Ind.: July '57, 200 shs; Aug., 250 shs; Dec., 2000 shs; Jan. '58, 500 shs; Feb., 100 shs.
Utd. Aircraft: Oct. '57, 100 shs; Nov., 100 shs.

process of the breaking up of the estates of the founders — the Fords, the Dows, the Watsons, the Wilsons, and many others — but this is a sociological rather than an investment phenomenon.

However, the ratio between purchases and sales would seem to have some meaning, as sales for any purpose must be guided at least partially by a stock market appraisal. Thus, when the gap narrows as it has done in the recent July-September period a clear inference of executive optimism arises. And while the motives for sales may be mixed the sharp acceleration in executive purchases recently can hardly be construed in any other light than as an expectation of improving business and profits. Of course, corporate executives can be mistaken, just as any other group of people, or future stock prices may not necessarily parallel earnings, but these figures plainly tell us that in the opinion of insiders the recession is evaporating and good business conditions lie ahead.

Individual Company Transactions

All of this discussion has been in terms of aggregate purchases and sales, from which a collective opinion can be derived. But the insider transaction records of individual companies may also provide a clue to the performance of particular stocks. Here we find a wide variation among our hundred companies. For one company alone, Singer Manufacturing, no insider transaction at all was reported for this fifteen month period. A larger number — American Tobacco, Bethlehem Steel, Eastman Kodak, Lockheed, National Biscuit, North American Aviation, Republic Steel and Socony Vacuum — showed only negligible activity. In no case was there really heavy trading, although insider dealings in American Motors, Continental Can and Foremost Dairies were moderately heavy. For few of these companies was any clear preponderance of buying or selling shown; sales and purchases usually alternated closely. As already emphasized, sales have less meaning investmentwise than purchases. However, continuous heavy selling over an extended period by many officers and directors of any corporation suggests a distinctly unfavorable outlook for that stock. Among our hundred largest companies the following records of recent heavy insider selling are shown on this page.

Analyzing the Showing

By way of comparison, the average monthly volume of insider sales for each of the one hundred companies was 866 shares. What is more significant, however, is that for most other companies sales were partially offset by purchases; for the seven corporations named above offsetting purchases were absent or negligible.

Such persistent selling by officers and directors would seem clearly to indicate a deteriorating profit outlook for their respective companies. And the quarterly earnings reports so far this year justify this expectation for six of the above seven; each of these six has suffered declines considerably more than average in this recession year. General Dynamics, however, managed to hold earnings very close to the year-earlier level, until the September quarter, when a sharper slip was reported. Standard Oil of Indiana, on the other hand, enjoyed a considerable recovery in the September quarter. While September results in general should look better, until a reversal in the trend of insider sales is noted, the advice conveyed by this particular evidence must still be construed as negative.

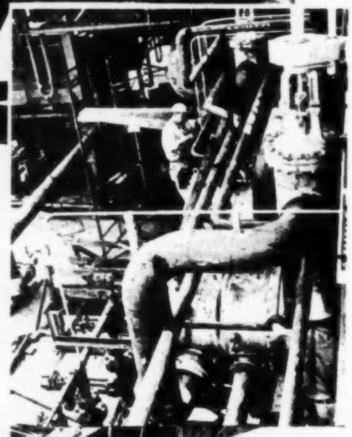
Other insider selling trends, not so clearly defined as in the issues discussed above, have been evident most of the present year in Bendix Aviation, Boeing Airplane, Borg-Warner, Continental Oil, General Motors, Owens-Illinois, Standard Oil (N. J.), Thompson Products, Union Carbide and Youngstown Sheet & Tube. There are no issues, however, that seem to show a selling trend getting under way only within the last few months.

On the buying side, clues given by individual issues have been considerably less numerous as well as less positive. As the sharp rise in aggregate insider sales began only in July, this has not been long enough for noticeable trends to be established in individual issues as yet. American Motors, Chrysler and Standard Brands are the only issues that have shown an apparent insider buying trend this year, but this has been much less definite than the selling trends for the issues discussed above. In American Motors there have been substantial sales recently as well as purchases; the largest purchases (12,000 shares within a year, making a total of 16,700 held) have been by President Romney himself. After the (*Please turn to page* 209)

PART TWO

What Third Quarter 1958 Earnings Reports Reveal

—Looking to year-end and into 1959



By Harold B. Samuels

NOW that the returns are virtually complete this Second Part of our analysis of Third Quarter Earnings can view the corporate picture with broader perspective.

Clearly, industry scored a comeback in the quarter just ended, but a group-by-group breakdown indicates just as cogently that the recovery was far from unanimous. For example, the auto industry suffered sharp earnings shrinkage, and other important industries, despite evidence of recovery, still trail far behind last year's performance. Steel earnings, for instance, are almost 30 percent below a year ago, aircraft manufacturers slipped badly, and of course the nations tool and machinery makers have fallen into a new and deep recession of their own.

Also of significance is the fact that the drug industry fell behind last year's pace, breaking a long record of earnings betterment. Moreover, it is doubtful that the pharmaceutical companies will benefit in the fourth quarter from anything as dynamic as the Flu Vaccine discovery which hoisted sales and earnings just a year ago. Thus, it seems probable that the drug group will again be behind last year's record in the fourth quarter.

On the brighter side is the impressive showing of office equipment companies, as a group, and the consistency of the comeback being scored by the country's farm equipment producers. Furthermore, several previously depressed groups showed evidence of turning the corner into a more favorable earnings period.

Radio and television producers, for instance, though presenting a mixed picture, reported gains as a group; and the long depressed textile industry scored its first earnings upturn in a long time. It should be pointed out, however, that the better picture for this group is largely the result of the sharply improved cellophane and synthetic fiber business of **American Viscose,** and the decidedly better returns **Celanese** realized from its chemical operations. The

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Quarterly Income Account Comparison of Industrial Companies

	3rd Quarter 1958			2nd Quarter 1958			1st Quarter 1958			3rd Quarter 1957		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Abbott Laboratories	$34.1	13.2%	$1.18	$23.6	5.4%	$.32	$33.0	13.4%	$1.16	$32.5	13.7%	$1.21
American Brake Shoe	30.4	1.4	.27	34.4	4.3	.92	37.3	2.8	.65	43.4	3.7	1.00
American Can	325.9	5.8	1.17	249.4	4.4	.67	220.1	3.2	.41	308.0	5.9	1.11
American Machine & Foundry	28.7	6.7	.56	49.6	3.8	.56	51.3	5.3	.82	46.8	4.8	.67
American Smelting & Refining	103.4	3.5	.51	98.0	3.6	.49	102.5	3.9	.57	117.8	3.9	.68
American Tobacco	292.0	5.3	2.29	278.8	5.3	2.13	247.0	5.0	1.79	290.2	6.3	2.56
American Viscose	58.2	4.2	.48	47.0	d.5	d.05	49.3	1.3	.13	54.5	2.4	.26
Armco Steel	210.3	6.1	.87	215.5	5.3	.79	142.9	6.4	.75	266.8	6.5	1.22
Armstrong Cork	63.6	5.7	.70	60.9	5.2	.61	57.9	4.6	.50	61.2	3.7	.43
Babcock & Wilcox	83.9	4.4	.61	99.5	2.9	.47	92.5	2.1	.33	87.6	6.5	.98
Bethlehem Steel	472.3	5.5	.55	506.0	5.7	.61	497.5	5.0	.52	638.7	6.2	.86
Boeing Airplane	415.3	4.1	1.10	449.7	2.2	1.43	411.0	2.3	1.35	416.2	1.8	1.13
Borden Co.	231.3	3.0	1.43	230.6	3.0	1.45	218.9	1.9	.87	240.7	2.9	1.34
Borg-Warner	129.2	2.7	.39	135.9	3.4	.51	130.8	3.0	.56	137.7	3.8	.59
Brunswick-Balke-Collender	78.2	8.5	4.31	37.5	6.5	1.55	27.8	2.8	.50	39.9	7.1	2.47
Celanese Corp. of America	59.7	7.3	.55	54.8	5.8	.34	48.9	5.1	.23	50.2	5.8	.30
Clark Equipment	38.0	4.4	.71	36.3	4.5	.69	28.2	3.5	.42	35.0	5.9	.90
Continental Oil	156.2	8.3	.67	140.6	6.7	.48	140.4	7.6	.55	150.1	7.4	.57
Corn Products Refining	95.5	7.4	.80	85.6	5.8	.55	81.6	6.2	.56	88.5	5.1	.50
Cutler Hammer	19.3	4.5	.57	22.3	5.0	.64	17.2	6.1	.81	19.1	8.1	1.18
Electric Auto-Lite	38.4	.4	.12	40.0	1.5	.41	44.2	1.4	.40	57.8	1.3	.48
General Amer. Transportation	49.9	7.4	1.52	52.8	7.1	1.56	55.1	6.2	1.45	53.5	6.8	1.54
General Motors	1,622.9	4.0	.22	2,399.8	6.2	.52	2,721.3	6.7	.65	2,320.5	5.2	.43
Georgia-Pacific Corp.	40.8	6.8	.76	39.1	5.2	.59	32.8	5.9	.55	34.5	5.9	.62
Goodyear Tire and Rubber	353.6	5.7	1.91	339.7	4.8	1.55	308.2	3.5	1.03	361.4	4.3	1.48
Inland Steel	167.5	7.2	2.11	159.9	7.5	2.12	150.2	5.3	1.40	184.5	7.2	2.36
International Nickel	81.6	10.9	.61	80.4	11.4	.63	85.2	14.3	.84	106.8	19.1	1.40
Johnson & Johnson	69.5	5.8	1.93	63.4	4.5	1.34	64.7	4.8	1.47	68.3	6.3	2.03
Koppers Co.	66.6	2.3	.61	66.8	1.7	.44	63.6	1.4	.35	85.5	2.4	.84
Lone Star Cement	29.9	16.6	.64	25.9	16.7	.53	17.7	11.2	.26	26.3	17.6	.60
Merck & Co.	52.4	13.5	.68	51.2	14.5	.72	50.2	13.0	.63	47.2	12.5	.56
Motorola, Inc.	52.6	3.3	.90	43.6	1.8	.41	40.9	1.6	.35	60.3	3.2	1.00
National Biscuit	102.3	4.8	.70	103.3	4.9	.74	101.6	4.9	.71	108.5	5.2	.83
National Cash Register	92.6	3.5	.46	98.0	3.6	.51	92.3	3.9	.52	95.0	4.3	.57
National Lead	116.0	9.9	.94	120.9	9.9	.98	101.9	8.7	.72	135.5	9.3	1.04
National Steel	150.0	7.2	1.47	117.8	5.5	.88	113.4	3.3	.51	149.7	5.3	1.08
Pennsalt Chemicals	20.8	4.9	.81	20.0	5.2	.82	18.5	4.0	.58	20.5	3.1	.50
Pfizer (Chas.)	53.4	10.5	1.04	53.1	9.5	.93	53.7	12.1	1.20	150.2	10.5	1.01
Pittsburgh Plate Glass	151.0	7.9	1.22	132.2	5.7	.78	117.3	4.3	.51	160.5	8.9	1.45
Polaroid Corporation	16.3	12.3	.55	13.1	8.6	.30	11.6	10.1	32	11.5	11.0	.34
Radio Corp. of Amer.	292.2	2.1	.40	264.2	1.7	.27	278.3	3.0	.59	288.6	2.7	.52
Raytheon Mfg.	84.9	2.9	.82	98.7	2.1	.71	80.3	2.1	.58	61.0	1.5	.34
Schering Corporation	20.4	16.7	.84	17.7	13.6	.59	20.1	17.1	.85	22.3	20.3	1.13
Simmons Co.	34.0	4.4	1.29	29.2	3.9	.91	27.9	2.7	.65	34.7	5.2	1.56
Standard Oil of Calif.	424.2	16.7	1.12	389.8	15.2	.94	361.3	15.8	91	421.9	17.8	1.19
Standard Oil of New Jersey	2,008.0	8.5	.83	1,830.0	6.7	.61	1.890.0	8.8	.82	2,011.0	9.8	1.00
Sutherland Paper	16.0	3.5	.50	15.4	3.7	.54	14.8	3.8	.54	15.6	4.4	.65
Texas Company	(NA)	(NA)	1.53	570.9	12.0	1.17	565.8	12.3	1.25	574.3	13.5	1.42
Thompson Products	63.0	2.3	.51	67.6	2.6	.62	73.1	2.6	.67	88.1	2.5	.78
U. S. Rubber	204.0	2.7	.74	206.8	2.3	.61	196.2	1.9	.45	214.0	2.2	.62
U. S. Steel	872.1	8.5	1.27	863.0	8.4	1.25	800.0	7.8	1.04	1,042.7	9.3	1.70
Westinghouse Electric	460.5	4.1	1.09	474.6	3.5	.97	449.3	2.8	.73	494.3	3.7	1.07
Wheeling Steel	55.8	3.3	.72	56.7	4.3	1.05	45.8	1.1	.03	57.2	3.0	.66
Zenith Radio	53.6	6.6	3.60	32.3	2.9	.97	42.1	4.8	2.07	44.6	5.5	2.53

d—Deficit. (NA)—Not available.

purely textile end of the industry, though showing signs of recovery, has still not translated much of the improvement into better earnings.

Major Companies Show Mixed Trends

Regardless of overall industry results, however, the earnings trends for individual companies are quite mixed. **General Motors** probably presents the best example, since its 22¢ per share profit shines like a gem beside the massive deficits shown by Ford, Chrysler and Studebaker. Of course, American Motors, as discussed in the previous issue, was the star among the auto makers, and here too various special reasons account for it. GM, on the other hand, suffered from the same forces that so adversely affected the other major car makers, so that the possibilities are that its income from General Motors Acceptance Corporation, its defense orders and other products enabled the company to stay in the black even though the earnings were insufficient to cover dividend requirements.

U.S. Steel again displayed its command over costs and an enviable ability to weather severe storms by earning its dividend with room to spare. The per share net of $1.27 was substantially below last year's comparable figure and only very slightly ahead of the $1.25 earned in this year's second quarter, but special circumstances account for the failure of net income to advance in the third period. These can be stated simply. Wages were advanced on July 1, but price increases were not put into effect until after August 1, and for some products not until the end of August.

In the fourth quarter, Big Steel's comparisons will benefit in contrast to the poor last quarter of a year ago. But even if operations stabilize at about 75 percent of capacity instead of the 85 percent so confidently predicted for the industry just a few weeks ago, the company should still rack up an advance in its profits, regardless of which period they are compared with. Evidence of this can be seen from the fact that actual shipments in the third quarter were down to 3,980,000 net tons, a figure lower than for either of the first two periods of the year, yet earnings improved. As shipments at higher prices increase in the fourth quarter, margins should broaden considerably.

In contrast to U.S. Steel, **Bethlehem** had a trying quarter, in which earnings and profit margins actually slipped behind the second quarter and were barely ahead of the first. Undoubtedly, the company with the rest of the industry was hurt by the delayed, and perhaps inadequate price increases, but lower shipbuilding activity also played its part. Bethlehem has failed to earn its dividend in two of this year's three quarters, but with auto demand perking up and a moderate increase in steel demand an apparent certainty, this situation should be corrected in coming quarters.

Some Very Bright Spots

The overall better turn in corporate earnings in the quarter just ended, contains some records which are noteworthy. **Food Machinery & Chemical**, for example, reversed the downward trend of earlier quarters, and with a sharp pick up is now running ahead of last year. In the third quarter, sales jumped 11 per cent over the same period a year ago, and net per share climbed to $1.21 from 90¢. Even more significant however, is the fact that nine months earnings are now $3.60 per share compared with $3.55 a year ago. Backlog of commercial equipment is down a scant 8 percent from a year ago, but unfilled orders for defense have soared to $62.5 million, a 94 percent advance over last year. Thus, after a "touch and go" first half, Food Machinery appears well on its way to better earnings.

Corn Products, which very recently merged with Best Foods, is one of this quarter's outstanding performers. Earnings in the first two quarters were 56¢ and 55¢ respectively, while profit margins averaged 6 percent. In the third period, however, margins widened with greatly increased sales and earnings bounded ahead to 80¢ per share, against 50¢ in the same period a year ago.

What is most impressive in the Corn Products picture is the fact that earnings for six months were already moderately ahead of last year. Now it appears certain that net for the year will be far ahead of the $2.53 per share scored in 1957.

American Can, which had its comeback interrupted by the recession in the first two quarters of 1958, is another of the nation's major companies that recorded an impressive comeback in the third period. At the year's half way mark the company was evidencing some signs of pickup, and earnings in the second quarter rose to 67¢ per share from a meager 41¢ in the opening period of the year. In the quarter just ended however, sales rose as demand for cans surged, and at $326 million, were almost 5 percent ahead of last year's good third quarter. Per share net benefited from the best profit margins of the year and advanced to $1.17 compared with $1.11 last year. Nine months net is still moderately behind last year, but with demand reportedly strong, American Can should be another company that will report higher earnings for 1958.

Some Majors Lag

Not all of the major companies are in the vanguard, however. And several have retrogressed despite good progress made in the rest of their industry. **American Tobacco** has made excellent earnings progress through most of the year, but heavy promotional expenses for the company's new "Tareyton" filter-tip cigaret cut into third quarter results. American entered the filter-tip race later than most major companies in the field and as a result is now absorbing expenses that most of the manufacturers absorbed last year. Despite this, however, American has managed to stay ahead of last year's earnings record. The $2.29 earned in the third quarter trailed the profit figures of a year ago, but for the full nine months of 1958 per share net expanded to $6.21 from $5.90 in 1957.

Thus with three months still to go, the nation's largest cigarette maker has already covered its divirequirements and seems certain to improve on the recovery movement that began in mid-1957.

National Cash Register is another of the major companies that failed to improve in the third quarter, but here too, special circumstances account for the slowdown. (*Please turn to page* 204)

A Top Ranking Exclusive

Part Two

United States on Road to Socialism -Or is it already there?

By James J. Butler

The author has been Washington analyst for the Magazine of Wall Street for the past 16 years, and many of his articles have been reprinted in full in the Congressional Record. Mr. Butler attended Trinity College and was graduated at the head of his class from National University Law School. He is a member of the bar of the Federal Court of Appeals, the U. S. Veterans Administration, the F.C.C., and the U. S. Supreme Court. He has been accredited for more than 25 years to the Senate and House Press Galleries, is a member of the National Press Club and White House Correspondents Association.

EDITOR

FRANKLIN Delano Roosevelt came to the White House in 1933 with a mandate to rescue the country from the worst business depression it had known, bringing with him a Congress sworn to give him the working tools. Precedents were to be forgotten if they interfered with the job at hand. All doubts were to be resolved in favor of action — effective action if possible — in any event action.

Such was the backdrop to the Inaugural speech which decried the circumstance that one-third of the nation was ill-clothed, ill-fed, ill-housed, or otherwise denied the largesse which such a country as this could, should, and would provide. Returning to the White House with indorsing applause ringing in his ears, FDR rolled up his sleeves. He had satisfied himself that "we have nothing to fear but fear itself." Days worked into weeks, and then into months as centralization of government in Washington took shape and the fear of fear evaporated while paternalism on the Potomac supplied the tranquilizer. The New Deal became the accepted way of life.

Centralized Government Took Over

States and cities relinquished their constitutional prerogatives to the melting pot of a managed national economy. A decade later some subdivisions would make feeble effort to regain these rights only to find then so enmeshed in government policy that recapture was, or seemed to be, impossible. Gradually the effort lost its militance. Now it seems abandoned.

Meanwhile the spirit of free competitive enter-

prise has been choked by the heavy-handed Federal tax collector who must feed undreamed-of sustenance into the maw of super-government in Washington. The individual as well as the corporate entrepreneur must maintain, out of earnings, a vast bureaucracy, an extravagant middleman over whom he has no control. Exacting a "handling charge" of about 20 per cent, these offices still ladle funds from a common account to which states contribute in widely varying proportions. Washington bureaus are no mere repositories; they issue no bank deposit books or check books to the "customers" with which they may withdraw their own funds and put them to use. The principle of hodgepodge rules, overlaid by Huey Long's guiding rule, "Every man a king!" An accompanying table will show the extent to which "richer" states are mulcted to pay for utilities, facilities, services and whatnot in "poorer" states. The result inevitably must be no "poorer" states, and no "richer" ones — economically there must be under this system, one single state in which incentive is destroyed, and there is no pretense of relationship between individual or group enterprise on the one hand, and its rewards on the other.

Direct Payments By Federal Government to States

(UNDER COOPERATIVE ARRANGEMENTS, FISCAL YEAR 1957)

Agricultural experiment stations	$28,329,098
Co-op agricultural extension work	48,692,857
School lunch programs	97,790,965
National Forests	28,666,244
Submarginal land program (counties)	491,389
Co-ops in marketing	2,754,949
State and private forestry cooperation	10,831,556
Watersheds, flood prevention	13,207,942
Commodity Credit Corp. (commodities donated)	68,166,446
School milk program	57,834,374
Surplus farm commodities distributed to states	167,980,195
Disaster loans (hay for drought stricken areas)	18,007,032
Bureau Public Roads, highway construction	954,732,612
Civil Aeronautics Adm., airport program	20,629,109
Maritime Comm. State marine schools	292,523
Army, lease of flood control lands	1,472,476
Civil Defense disaster relief	10,166,417
American Printing House (blind)	240,000
Colleges, agriculture and mechanical arts	5,051,500
Cooperative vocational education	37,582,036
School construction and survey	67,086,366
Emergency maintenance, operation of schools	93,194,675
Library services	1,440,000
Venereal disease control	1,223,846
Tuberculosis control	4,485,949
General health assistance	13,147,170
Mental health activities	3,949,845
Cancer control	2,235,318
Heart disease control	1,987,983
Water pollution control	1,683,331
Polio vaccination, emergency	30,056,174
Medical facilities, survey and planning	394,690
Hospital and medical construction	71,503,850
Construction, waste treatment works	843,735
Health research facilities construction	1,223,234
Maternal and child health services	15,497,506
Services for crippled children	14,834,964
Child welfare service	7,919,528
Old Age assistance	973,117,091
Aid to dependent children	435,632,203
Aid to permanently disabled persons	106,927,775
Aid to the blind	40,745,354
Office of Vocational Rehabilitation	34,228,823
Federal aid, Wildlife, etc.	15,739,837
Migratory Bird Conservation	662,536
Mineral Leasing Act	25,591,795
Unemployment Compensation & Employ. Service	248,315,752
Unemployment trust fund, credit to state accts.	71,195,220
Federal Civil Defense Adm.	8,647,943
Payments to states (shared), Federal Power Act	32,980
Defense community facilities and services	653,943
Urban renewal	29,621,634
Urban planning assistance	650,854
Payments in lieu of taxes (TVA facilities)	4,744,401
Veterans Adm. homes for disabled veterans	5,680,512
Supervision of on-the-job training, veterans	2,537,067
Miscellaneous grants	54,059,450
Total grants, categories above	$4,064,190,041

How Come?

How can such an incredible departure from the principles of constitutional government take place in a country famed for its riches in natural resources, productive ingenuity, and heritage of individual freedom? To find the answer one must go back to the years immediately preceding birth of the New Deal. When the global depression struck in the late 1920's, the United States was one of the hardest hit — we had more to lose. After the stock market crash started the downward plunge, first cities, and then states, were called upon to bolster the economy. Meanwhile the Federal Government, remaining within its constitutional bounds, followed the even tenor of its way. President Hoover cut taxes even as cities and states edged toward the limits of their borrowing capacity. Soon there was neither authority nor source of new state money. Unemployment was growing by leaps. Relief requirements expanded in proportion. The Federal Government was running about $1 billion ahead each year; state and local governments were dropping a matching amount behind. Unemployment had risen from 1.5 million in 1929 to 12.1 million on Election Day in 1932 — one out of every four persons seeking employment could find no job. Consumer purchasing had dropped one-third; gross private investment had fallen from $16 billion to $1 billion on an annual basis; gross national product was down to $58.5 billion, from $104.4 billion; per capita income was off almost 50 per cent; farm foreclosure sales had doubled; tax receipts between 1929 and 1932 had dropped 17.3 per cent because only the high income brackets were taxed.

This was a new kind of depression. States and cities needed more tax revenue or more borrowed money — and neither could be found. Three states and 37 large cities had defaulted on their bond payments and in 1933; 528 public issues went without takers although they included such entities as Buffalo, Philadelphia, Cleveland, Toledo, Mississippi, and Montana.

The Low Point

The spring of 1933 marked the deep point of the depression. Business, industry, employment, and banking were at or past the breaking point. The emergency relief nature of Federal Government activity which began in the first years of the New Deal is reflected in the titles and purposes of the alphabetic agencies that were set up:

The Federal Emergency Relief Administration (May 1933), created to assist states and cities in furnishing direct relief to the needy — $1 of federal money

for each $2 of locally-raised funds. In two years, it spent $3 billion of federal funds.

The Civil Works Administration (November 1933), to employ 4 million jobless men on work projects, financed entirely from Washington and ousting local governments from areas of jurisdiction which had been theirs since Colonial days: repair and improvement of roads, streets, school buildings, parks, stadiums, airports and community facilities.

The Public Works Administration (June 1933), to give federal financing to public building programs, bridges, parks — a whole catalog of activity in the larger area of what had been local responsibility.

The Works Progress Administration raked the leaves, and the **Civilian Conservation Corps** felled the trees, or planted them, as the need suggested.

Between 1933 and 1934, Federal spending increased by more than $2 billion, most of it devoted to grants for local governments and reflecting a nine-fold increase in one year. Approximately 60 per cent of all federal appropriations went for recovery and relief; federal appropriations, exclusive of those for RFC, conservation, flood control, etc. amounted to 43 per cent of the total.

In 1935 conditions repeated: Federal spending increased by $1 billion, about one-half of which was added to bankrolling of local ventures. And in that year Social Security came into existence. The record of Congressional debate and public statements show its basic purpose to be something different from its goals as now understood: originally it was intended to bridge the gap between direct aid for the unemployed through Federal grants, and a federal-state "assist" while employment picked up. It was natural that unemployment insurance and old-age pensions would come out of the depression, with permanent status. It had happened that way in Europe and elsewhere.

Social Security and Permanent Farm Subsidies

Social Security and the Agricultural Adjustment Act of 1933 were destined to leave lasting impress on the budgetary problems of the United States. The first named was to make the urban resident beholden to Big Brother (Washington), and the other was to place the rural resident in a dependent relationship to his central government. When the AAA was declared unconstitutional, the principle was given rebirth in the Soil Conservation Act of 1936. The New Deal didn't miss a trick; when the Supreme Court dealt it a blow, the new order sidestepped and came back with a different instrument. It was the Wagner Act after the Blue Eagle of NRA was shot down; it was Soil Conservation when AAA fell. Support of farm income by way of government aid was intended to be a temporary measure. FDR was wooing and winning the farm bloc in congress. The farmers had seen defeat, in the 20's, of emergency agricultural tariffs, marketing regulations, increased farm credit, aid to farm cooperatives, and export subsidies embodied in the Mc Nary-Haugen Bill of 1928, vetoed by Calvin Coolidge.

As one historian of that era put it: "Without going into all the details of the first and subsequent New Deal agricultural programs, it is clear that the basic outlines had strong antecedent roots. It had long since been clear that no independent state or local action would suffice, and the 'farm problem' thus achieved a lasting importance in Federal Government operations, just as the industrial sector was provided for under the Social Security Act. In fact the agricultural-aid and social security programs (plus the Railroad Retirement Act of 1939) together represent the bulk of New Deal legislation which has had lasting impact on the Federal budget."

Until a quarter-century ago the preamble of the Constitution had been literally construed. "We, the people of the United States, in order to promote the general welfare . . . " was taken to mean the exclusion of class legislation by Federal law or ukase, and to make the test of validity and constitutionality the query whether the new action was all-embracing. But the New Deal segmented the "general welfare," and legislated group by group. In justification, the words "the people of the United States" were parroted, held out as a rejection of state's functions and a direction to central government action. The broad paved street, or

(Please turn to p. 210)

WHAT MUST BE DONE TO RESTORE DEMOCRATIC GOVERNMENT

1. Re-establish the principle of co-equal divisions of the Federal Government: Legislative, Executive and Judicial.
2. Restore the prerogatives and duties of Federal and Local Government, as laid down in the Constitution of the United States, and create a Permanent Commission on Federal-State Relations to insure jurisdictional integrity.
3. Create machinery for speedy and final adjustment of questions arising out of overlap of State and Local Government, including — but not limited to — fiscal affairs.
4. Restore to Local Government, duties and powers, with respect to intrastate matters not delegated by the Constitution to the National Government.
5. Take Government, at all levels, out of business enterprises in which it is demonstrable that private operation can handle them with equal efficiency and economy.
6. Delineate tax areas that are to be exclusively Federal, those to be exclusively State or Local, and those to be shared by both. Begin recasting functions and taxing powers, maintaining balance between receipts and financial obligations insofar as possible during the period of readjustment.
6. Amend the Taft-Hartley Act to require equality of treatment for labor and management, by bestowing upon local agencies, jurisdiction over local matters.
7. Develop a Code of Federal labor-management law to reach abuses committed by employers or employees in, or affecting, interstate commerce.
8. End the practice of soaking the so-called rich states by permitting the Federal Government to pour funds for local projects into so-called poor states only when those projects meet the constitutional test of "the general welfare."

Inside Washington

By "VERITAS"

SOVIET progress reports are tailored to the Kremlin's order and are subject to "the usual trade discount" but on the matter of industrial production the known data on exports is a good reflection of the overall picture. So while one may safely reject the Embassy's assurance that the qualitative indices of Red industry are improving, it may not be wise to ignore the official report that the unit cost of production is dropping and inventories are building. In the third quarter of 1958, says the same source "savings resulting from the reduction in cost of all marketable goods amounted to approximately 8 billion rubles.

GRANTED that labor-management relations (for want of a better term) that are acceptable to the Russian worker would be damaging or worse if applied to United States production, this does not lessen interest in how the end result was brought about. Explained the Red Embassy in Washington: "Rise in the labor productivity of industrial workers is the result, primarily, of improvements in technology and technological processes. During the first nine months of this year, compared to the same period last year, the increase was 5.6 per cent. For the past 44-year period, we find that the labor productivity of the Soviet workers increased by 8 per cent annually against 1.5 to 2 per cent in U.S.A."

CONTRADICTION of White House fiscal policy appears inherent in the Richard Nixon "Harvard speech," a document taking on added importance in retrospect. The President, somewhat petulantly, summed the election results as a public choice of "spenders," and vowed he'd cut spending. Contrast this with Nixon's keynote: "We must not allow the fear of a temporary budget deficit to put us in a strait-jacket which will keep us from doing what we ought to do to insure economic growth. We must learn that we cannot add new programs to the Federal budget unless we are prepared to levy the taxes to pay for them." It is to be noted that the Vice President neither suggests a curb on public spending nor palls at the idea of enacting new taxes.

"COMPANY DOCTORS" would do well to read Brown vs. United States, a recent case decided by the U. S. Court of Claims. Brown, an army major, became worried over the volume and kind of assignments given him and worked himself into a condition in which his nerves were affected. He visited the post medicos. Barbiturates didn't do the trick so the medical men told him to go on a "binge." He went on one — a long one. So long that he was cashiered out of the Army. Fourteen years later, the Court has ruled he's entitled to pay for those years: He followed the advice of the "company's doctor."

WASHINGTON SEES:

There is no gainsaying the fact that organized labor played a perceptible role in turning a national democratic trend into a party landslide on Nov. 4 and it would be wishful thinking to suppose that the union bosses will fail to follow through with demands for reward.

AFL-CIO President George Meany must have spoken with tongue in cheek when he announced labor's goals for the upcoming session of Congress. What Meany appeared to be doing was gathering together all the aspirations of the unions, expressed through the years, plus all the campaign promises recklessly tossed around in the election campaign. Revision of the Taft-Hartley Act to remove the permissive under which States have passed right-to-work laws is on the agenda. If such an amendment prevails, the right-to-work laws would become nullities — and they now exist in almost one-half the states. An increase in the minimum wage to $1.25 an hour, plus broader coverage is asked and stands a chance of partial realization. There will be another labor bill modeled after the Kennedy-Ives draft. It won't require much watering down to get labor votes behind it. No one (opponents least of all) denies that the measure would do great good; the objection made was that it didn't go far enough to cure evils developed by the McClellan Committee investigation.

As We Go To Press

►General revision of the national economic program for use in the event of grave national emergency, or outright war, has been instituted at the direction of the President. Without setting out specifics, Ike has placed his signature on an outline for civil defense and universal mobilization embracing Federal control of wages, salaries, rents, prices, manpower, materials and production facilities— on a standby basis. The President's indisposition to speak of readying controls (he has asked Congressional leaders to avoid the psychological danger of enacting any at this stage) gave way to the necessity of redefining the responsibilities of the Office of Civilian and Defense Mobilization, coincident with merger of the two agencies joined in the name.

►Administrator Leo A. Hoegh, Director of OCDM, has been directed to carry cut periodic testing of plans and programs. He will work closely with key personnel in the business, industrial, financial, and organized labor areas, building on the continuing study of home front participation in national defense. The Presidential instruction anticipates three principal contingencies: International tension, not of such extreme nature as to require invocation of full emergency authority; limited war, in which the United States is engaged overseas but in which there is no immediate expectation of nuclear attack on continental United States; general war, including massive nuclear attack.

►Subject to later development along lines which the agency has not yet formulated is section 27: "Measures to maintain the national monetary and credit structure and the entire financial system so as to assure optimum support of mobilization, survival and recovery of the nation and its people." The fundamental idea is not to substitute a super-government for existing agencies, the Treasury included, but to place within OCDM the job of correlation.

►The several sections of the program sound revolutionary. To some extent they are because they are designed to prepare for warfare of the most violent nuclear type at home, but with flexibility to adjust to less critical emergencies. The essential framework is the setup used in the war days, but modernized to include such eventualities as the need for radiological, biological and chemical warfare defenses. Government and industry procedures for reducing the vulnerability and assuring the emergency usability, survival and recovery of essential production and distribution stand high on the list of "musts." Through control of manpower, material, wages, food rationing and transport, the whole plant is devised to establish a war basis in short order. If armed conflict involvement should come, the President has the power to issue Executive Orders "freezing" all elements of national existence necessary to successful conclusion of the crisis.

►President Eisenhower must make early decisions allocating powers and duties between the military forces and the National Aeronautics and Space Administration which Congress created this year to take charge of nonmilitary rocket and space ship promotion. The rivalry between the two entities is taking on increased bitterness. Prime issue is which will produce the immensely expensive equipment for the program. The Army wants to use its arsenals to do the job; NASA prefers to have the work executed by private companies holding Air Force contracts.

►Involved in the fracas is the new agency's requisition of 2,100 missile and space scientists most of whom are working at the Army's Redstone Arsenal. To comply would end the military phase of rocketry and missilry; evidently there is no plan to take over the arsenals operated by the Army. This, said Gen. John B. Medaris,

head of the Ordnance Missile Command, would leave no course open but to junk the plants now in operation. The Air Force doesn't operate arsenals; it contracts with private corporations. Billions of dollars worth of production are involved. There is forceful argument for continuing the Army facilities in existence. National defense, including retention of plant and know-how, is one of the grounds on which the military is making its fight.

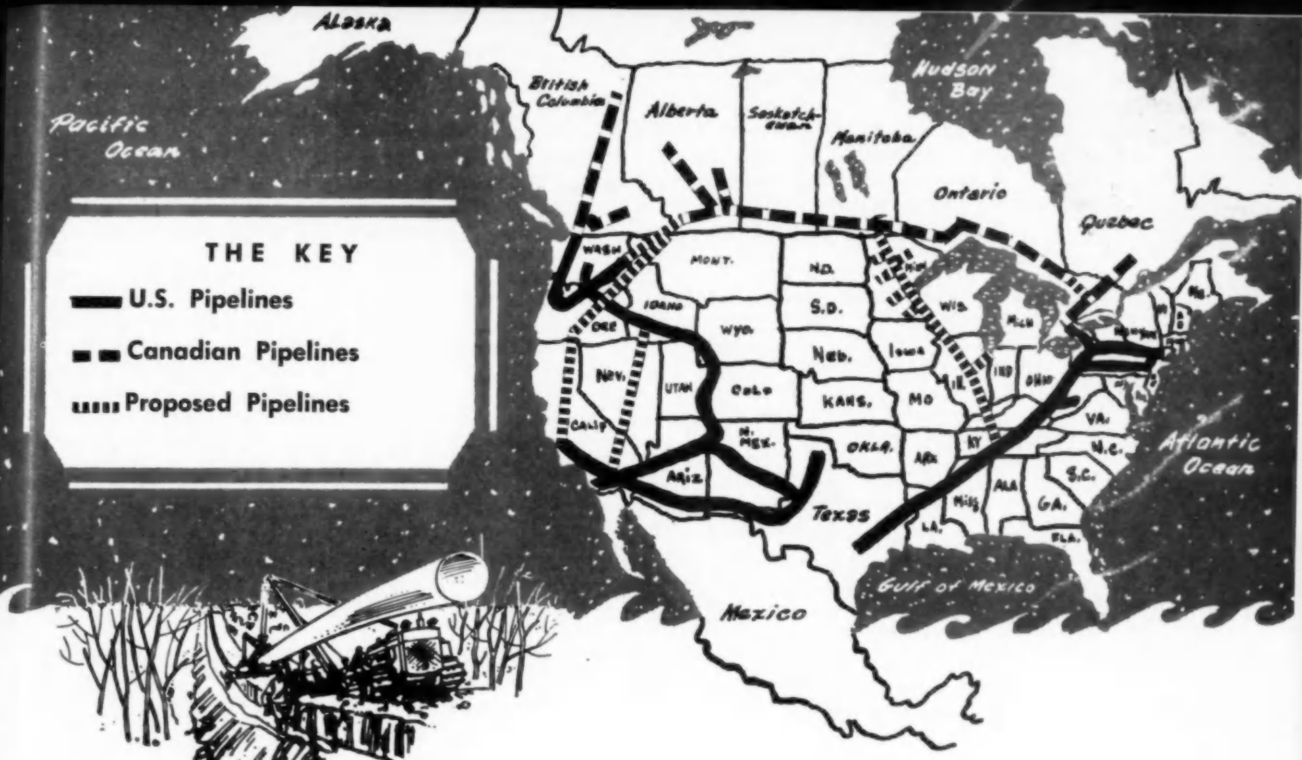
►Labor Secretary James P. Mitchell wil go ahead, he said, with plans for a labor union reform bill. Mitchell was the principal architect of defeat of the Kennedy-Ives measure this year and the roll call shows the plan was carried out by fellow members of the republican party. The argument still rages over who was at fault but the Congressional Record seems to supply the answer; 149 democrats voted for passage of the measure and 61 opposed—a vote of 71 per cent in favor; 41 republican house members voted for and 137 against—a record of 77 per cent opposed. Mitchell said the bill didn't go far enough. He saw to it that it didn't go any distance toward the goal. If there was any thought of a payoff by organized labor at the polls, the hope proved baseless.

►The new Congress is more pro-union than the past one. Almost to a man, the democratic pickup was strongly backed by organized labor. So when Mitchell goes to Capitol Hill with his plan which, he says, must include provisions against secondary boycott and "blackmail picketing" he is likely to face opposition from a new and growing wing of democrats, as well as republicans who, presumably, haven't changed their minds. The Secretary of Labor isn't going to win friends among management executives by his insistence that state, not federal authorities, should deal with most of the abuses discovered by the Mc Clellan Committee.

►Mitchell's thesis, which has a familiar ring, is this: "Direct criminal violation of the law is a comparatively simple matter to deal with, if you have a law on the books with teeth in it, and enforcement officials who do their job. The arson, mugging, goon squad assault tactics revealed by labor investigators, for example, need not be tolerated by a community with strong laws and strong law enforcement agents. It is far more important to remove the conditions that give rise to labor lawlessness." What the Secretary calls the "Administration Bill," will propose outlawing not only secondary boycott and "blackmail picketing," but also would assure that union members have opportunity to choose their officers without coercion, guarantee union funds against theft and misuse, stamp out collusion between employer and union representatives, eliminate middle men, close the gap between federal and state law, and amend the Taft-Hartley Act to make it more fair to all parties.

►Lyndon Johnson, majority leader in the U.S. Senate says there wil be a new farm bill in the next Congress and that it wil pass. With the votes at his command he probably knows whereof he speaks. The democrats have increased their strength in the farm belt, a fact which hardly can be diagnosed as anything other than the Eisenhower-Benson program. The Administration had hoped for substantial reduction of farm price supports in the next session. The White House is preparing proposals to that end. Despite the cold reception that seems assured, this proposition will be basic in the President's next State of the Union Message. As he has in past years, Senator Johnson is expected to anticipate the White House proposition and make his own—selective reduction of price supports.

►Something must be done by Congress to cope with the wheat surplus situation, regardless of political and personal gripes born of the campaign which led up to the November debacle at the polls. Wheat production this year totals more than 1.4 million bushels—an all-time record, one-half as much again as last year's. The market cannot absorb this amount and at least 500 million bushels are headed for government storehouses, with price support at 75 per cent of parity. There already is enough wheat in government storage to last the country for one full year. These are the hard facts and the answer seems clear: The Eisenhower-Benson price support cut must be enacted. But the bill will carry democratic names, depend on that party for passage.



Borden Report Staggers Oil and Gas Pipeline Companies

By John R. Walker

► **This careful appraisal by a Canadian-American authority will give you an expertly condensed picture of the salient points in the 50,000 word Borden Report—and tell you . . .**

► **What its impact will be on the existing arrangements between American-Canadian natural gas companies and the Canadian government.**

► **To what extent it will affect American companies—and even alter crude oil import-export plans**

► **Whether new interpretation of a fair return on stockholders' equity would put an end to private capital financing for pipelines in Canada**

► **And the vast program designed to use the great storehouse of energy resources for Canada first under Canadian ownership** **EDITOR**

CANADA is moving towards a more closely planned system of oil and gas administration that will tighten the regulation of pipelines and keep a firm rein on the export of its natural gas.

That is, broadly, the major recommendation of the first report by a Canadian Royal Commission on Energy, issued late in October. And in the specifics of this sweeping study lie many recommendations which, if acted upon by the Canadian government, will eventually affect every American company dealing in Canadian gas and oil, and every American interest investing in Canadian pipelines.

This commission, headed by a prominent Toronto industrialist Henry Borden, was set up in October 1957 to make a study of all Canadian energy resources and to report to the government on how they should be utilized for the benefit of the people of Canada. Because of a bitter domestic political fight over the building of a cross-country gas pipeline by Trans-Canada Pipe Lines Limited and a commitment to export some of its gas to the United States, the Borden Commission made gas and oil the subject for its initial report.

Two recommendations of a general nature set the pattern:

1. A National Energy Board should be established to control export, import and movement across provincial boundaries of all forms of energy.

2. The already established Board of Transport Commissioners should set the oil and gas pipeline rates, based on a fair return for shareholders' equity.

These two bodies would, in essence, carry on the work which in this country comes within the juris-

diction of the Federal Power Commission.

But of more immediate effect were some recommendations which dealt directly with five American and three allied Canadian companies now involved in the Western Canadian natural gas pipeline and gas reserves struggle.

Controls Advocated

All these firms are engaged either in exporting natural gas from Canada or in attempting to get permission to bring gas across the border. And the Borden commission in its very first recommendation says "the entry of Canadian natural gas into available United States markets, on a moderate scale, is a highly desirable step" and that such gas as may be "surplus to the reasonably foreseeable requirements of Canada" be opened to export "under license".

But the commission looked into the specific case of Trans-Canada Pipe Lines Limited and recommended that the company's assurance of a *permit to export gas to the United States be rescinded. The previous Liberal government had given this firm a written commitment that it could get an export permit for 25 years to allow the flow of 200,000 mcf a day of Canadian gas to cross the border at Emerson, Manitoba, into the lines proposed for the northern Midwest states by Midwestern Gas Transmission Company and its parent Tennessee Gas Transmission Company. Since it was the battle over this pipeline company and its export deal that was in part responsible for the resurgence of the Progressive Conservative party in Canada, it was clear the Commission's recommendation would be gladly approved by Prime Minister Diefenbaker's government.*

Alberta Natural Gas Reserves and Sales
(in billions of cu. ft.)

Date of reserve estimate	Remaining established reserves	Production Year	Production Total	Deliveries out of province
Dec. 31, 1951	6,800	1951	83.8	0.2
Dec. 31, 1952	9,920	1952	95.7	8.6
June 30, 1953	11,500	1953	113.9	10.1
March 31, 1954	13,400	1954	135.5	7.7
June 30, 1955	15,600	1955	168.8	12.1
Sept. 30, 1956	18,300	1956	200.2	11.8
March 31, 1958	22,500	1957	244.2	22.5

Source: Oil & Gas Conservation Board of Alberta.

Natural Gas Sales in Canada 1947-1957
(in billions of cu. ft.)

Year	Eastern Canada	Western Canada	Total Canada
1947	8.8	31.0	39.8
1955	20.5	97.3	117.8
1956	26.7	117.1	143.8
*1957	36.0	132.8	168.8

* Preliminary D.B.S. estimates. Dominion Bureau of Statistics.

Tennessee Midwestern Pipeline Turndown

In any event, this matter has been superseded by events before the Federal Power Commission one week after the Borden Commission report came out. The FPC turned down the application of Midwestern and Tennessee for its $110,000,000 pipeline through Minnesota, Wisconsin and Illinois, on the grounds that Trans-Canada Pipe Lines did not have an adequate gas supply under contract. This view, according to the FPC, was merely corroborated by the Borden Commission, whose report did not alter the FPC's conclusions.

Other Actions

The FPC at the same time rejected competing proposals by Northern Natural Gas Company and Michigan Wisconsin Pipe Line Company to supply the upper midwest with US gas. As a result, both Midwestern-Tennessee and Northern Natural gas companies have announced consultations with a view to cooperating on a new pipeline project to serve Minnesota, Wisconsin and the upper Michigan peninsula, with Canadian natural gas. Any such scheme, however, is unlikely to get the green light from Canada until a National Energy Board has been established by the Canadian Parliament next year.

The other specific case which drew the attention of the Borden Commission involved the present export commitment between Westcoast Transmission Company in Canada and the Pacific Northwest Pipeline Corporation which is 99 per cent owned by El Paso Natural Gas Company.

Westcoast Transmission Company has been exporting natural gas from Alberta and British Columbia to the northwest Pacific area since receiving US and Canadian approval in 1954 and 1955. The Borden Commission took some exception to the fact that Canadian distributors pay 32 cents per 1,000 cubic feet to Westcoast's gas, while the US distributor pays only 22 cents. Westcoast gave evidence before the Borden Commission that it had to offer this low rate to Pacific Northwest Pipeline Corporation because US gas producers were quoting rates for their own gas to that area which were in that low range.

Nevertheless the Borden commission recommended that the Board of Transport Commissioners in regulating rates of Westcoast should "take into account the prices at which gas is sold by Westcoast Transmission Co. in Canada and for export from Canada, in order to ensure that the return on shareholders' investment in Westcoast Transmission Co. permitted by the Board of Transport Commissioners shall not result in Canadian consumers of natural gas contributing more than their fair, reasonable and proportionate share of the total return." Further it recommended that when Westcoast or its affiliates make application for export permits for additional gas, the Canadian government must ensure that the gas is being sold at prices "which, when averaged, are fair and reasonable after taking account of the price at which natural gas is being sold to Pacific Northwest Pipeline Corporation under its present contract with Westcoast Transmission Co. dated Dec. 11, 1954."

FPC Interprets Stone & Webster of Canada Study

This attitude is taken by the Commission—and

could be followed elsewhere in such Canadian-American deals—because "the question arises whether the agreement with Pacific Northwest is so onerous that, in effect, the Canadian consumer buying from B. C. Electric and Inland is subsidizing the delivery of gas to the Pacific Northwest." The commission revealed a study by Stone & Webster Canada Ltd., which found the operating profits of Westcoast were coming solely from the Canadian consumer and no profit was being made by Westcoast in carrying out the terms of its contract with Pacific Northwest.

The commission concluded with this reminder, possibly for other American interests as well, that "it must be borne in mind that Pacific Northwest, which has the benefit of the contract, is a very substantial shareholder of Westcoast, having originally acquired a 25 per cent interest in Westcoast.

"It would not be in the public interest of Canada for that company, not only to benefit from a contract negotiated with Westcoast at a time when bargaining powers of each company were not equal, but also to benefit, as a shareholder, from prices charged to Canadian consumers of gas to make the project a profitable one."

This theme of protecting the Canadian interest as well as the Canadian resource is echoed frequently throughout this first report—and it is solidly in line with the present mood of Canadians and their new conservative government, as they keep tab on US investment in and control of Canadian resources.

Possible Canadian Market Requirements for Alberta Gas 1958-1987
(in billions of cu. ft.)

Year	Estimates *	
1958	234.0	234.0
1960	403.4	363.1
1963	558.0	459.0
1968	776.3	608.5
1973	1,009.8	738.8
1978	1,245.1	865.0
1983	1,494.4	1,001.6
1987	1,717.0	1,119.1

*The two sets of estimates reflect different estimates on Eastern Canada requirements.

Export Permits For Natural Gas Needed

The other group of companies that will be most immediately interested in the commission's attitude towards exports and prices will be the Pacific Gas and Electric Company which is planning to bring Canadian natural gas into California. Its supplier will be the Alberta and Southern Gas Company Limited which would export Alberta gas from fields near the US border. Lately, Alberta and Southern has had to collaborate with Westcoast Transmission on a joint pipeline, a project still pending.

Since the Borden Commission believes that Canada has some gas to export, though not unlimited quantities, its recommendation for the establishment of a National Energy Board is of great importance. Until it is set up—and the present Conservative government had long ago advocated it—American companies need not expect Canada to grant any export permits for natural gas.

The comission argued that the administrative body dealing with pipeline rates and traffic ought not to be the same as the authority to which application should be made for licences and certificates of public convenience. Thus the need for a National Energy Board.

An Independent Body

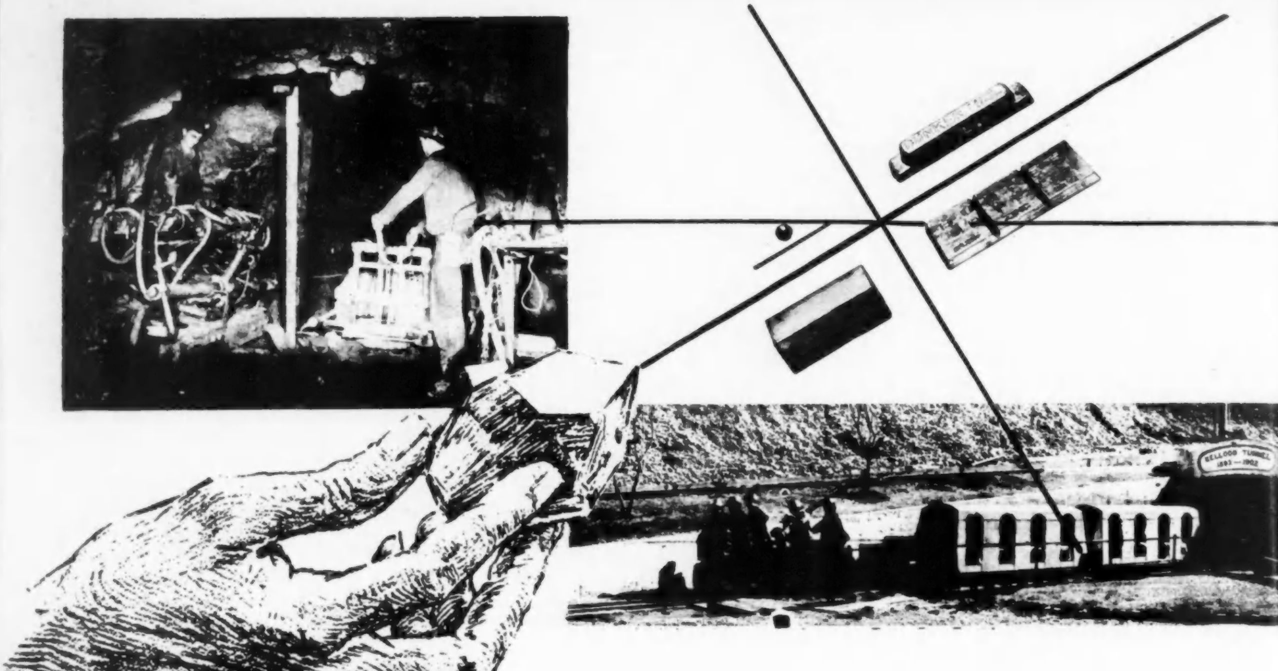
It would be an independent regulatory body of three to five members, with permanent status. It would be established by Parliament, "to study and recommend to the governor in council (the Canadian cabinet) policies designed to assure to the people of Canada the best use of the energy and sources of energy in Canada." It would hold public meetings and report annually to Parliament through the minister of Trade and Commerce, and would not otherwise be subject to the direction of any specific minister in the cabinet.

By "energy" the commission means all kinds, not only oil and gas, but also coal, hydro-electric and atomic, and in future reports the recommended regulations for those energy sources will be outlined. The extent of the NEB authority suggested, already is exceedingly broad. It asks the board "to study, review and from time to time recommend to the minister of Trade and Commerce such policies and measures as it considers necessary or advisable in the public interest for the control, supervision, conservation, use, and development of energy, and sources of energy, and for the production, recovery, manufacture, processing, distribution, transmission, sale, purchase, exchange, disposal, import or export of energy and sources of energy within, to or from Canada."

Why Curtail Crude Oil Imports

The proposed National Energy Board, which would grant import licenses to those wishing to import crude oil or petroleum products into Canada, would also have to take account of certain things in exercising its powers over all export-import licences for energy resources. The Borden Commission urged that the board ought to remember two things in granting such licenses: 1. "The present and anticipated requirements of Canada." 2. "The advisibility of encouraging the development in Canada of processing industries relating to energy and sources of energy as distinct from the export of unprocessed natural resources." *Canada would like to be able to sell the gas or oil and the by-products as well to the United States, rather than have to purchase the by-products back from the US after exporting the resource.*

Again in the granting of certificates of public convenience, the National Energy Board, according to the Borden Commission, ought to consider two factors. First, the economic feasibility of the pipeline and whether it is in the national interest of Canada. And secondly, the financial structure and ownership of the pipeline company plus its engineering plans must be carefully weighed along with the "opportunity of the people of Canada to participate in the financing, *(Please turn to page 207)*



An Expert Reappraises the Outlook for...

COPPER LEAD-ZINC and ALUMINUM

By William F. Boericke *

PRECISELY as has happened before in the market history of copper shares, speculative activity has been sparked by a series of strikes that shortened substantially the supply of copper that had been counted on by consumers and markedly improved the demand-supply position of the metal. But basically the picture was bound to improve even without work stoppages at the mines. When the price of copper fell from 56 cents to 21 cents a pound in London, and hardly less drastically from 46 cents to 25 cents here, all within a period of 21 months, a great many marginal producers were forced to suspend. Mounting stocks of copper in the hands of producers and fabricators dictated substantial cutbacks in output here and abroad which had the effect of bringing supplies into near balance with demand. During this period of falling prices consumers' inventories had been allowed to fall to dangerously low levels.

The rising tempo of industrial activity that became noticeable early in August, brought an improved demand from copper buyers who suddenly realized that they weren't being speedily accommodated with last minute orders for quick delivery. Confidence was strengthened by publication of the September statistics of the Copper Institute which showed domestic deliveries had increased to the highest monthly figure since early in the year while at the same time refined stocks on a world basis had been reduced 125,000 tons since last April. World deliveries of refined copper to fabricators for the nine months of 1958 were almost in exact balance with refined production indicating that after months of effort an equilibrium had been achieved.

**** William Fay Boericke, the author, is a well known authority on the metal stocks, metallurgy and mining. After being graduated from Harvard College and the Columbia School of Mines he became associated with New Jersey Zinc Co., American Institute of Mining Engineers, and was then appointed business manager of "Mining & Metallurgy." His service to the Government includes Chief Valuation Engineer for S.E.C. and for the Philippine Bureau of Mines. He was interned in a Japanese camp 1941-44. Since 1946 he has been a Mining Engineer and Consultant for Hayden Stone. In addition to writing for the Magazine of Wall Street, he has also been the author of technical studies for the American Economic Association and Colliers Encyclopedia. He is a Charter Member of the Mining Club.***

Unexpected Change in Export Picture

At the same time it became obvious that imports of copper from abroad, vitally needed to supplement domestic supply under normal demand, would end unless the price differential between London and New York became sufficient to cover shipping costs and the newly imposed tariff of 1.7 cents per pound. This was impossible with prices on the London Metal Exchange strongly maintained around the equivalent of 25 cents a pound, or on a then practical parity with New York. Something had to give. Instead of London selling lower, prices strengthened and advanced above 30 cents by the end of October. Short sellers who had counted on supplies of African copper to cover their commitments, turned to the United States, the cheapest source of copper then in the world. The unusual situation has consequently developed that for the first time in many years this country has been exporting copper in substantial volume abroad.

Highest Domestic Volume in 25 Years

In order to protect their supplies of copper for domestic consumers, producers and custom smelters have been obliged to advance their prices from 25 cents to 29-30 cents in successive steps. Extraordinary activity developed on the Commodity Exchange with trading volume in copper futures at the highest level in 25 years. The three-day volume for October 20-23 totalled 53,000 tons, more than the combined trading for all of 1953-55.

The immediate cause for this speculative activity resulted from the long-drawn out strike at the Rhodesian mines and to a minor extent from the strike at the International Nickel mines at Sudbury. *These jointly have caused a loss of over 80,000 tons to date, or about 30% of Free World production before the strikes began. This tonnage can't be made up this year and represents a definite loss of output below what was counted on.* Even if the strikes were settled promptly it would still require 60-90 days before refined copper could be arriving in Europe from Rhodesia. This is the normal time lag needed for processing the metal. In consequence copper is likely to remain in a relatively tight position until the end of the year.

Copper stocks have not been laggard in pacing the improved position of the metal. Investors and speculators correctly anticipated the effect the statistics would have, indeed may have over-estimated the effect. Even while copper was selling at 27½ cents a pound, shares had advanced to discount earnings based on 30 cents a pound or more for the metal. *Considered only on estimated earnings for the current year, copper shares are selling at exaggerated price-earnings ratios.* This is abundantly clear from the nine-months statements now available. That the fourth quarter will prove to be the best of the year admits of hardly any doubt but making full allowance for this probability, it still appears that share prices today are discounting earnings enthusiastically for the year ahead if a normal 8 to 10 multiplier is employed.

In 1957 copper averaged 29.57 cents a pound for the year and the five major producers, Kennecott, Phelps Dodge, Anaconda, Inspiration, and Miami reported average earnings for the group of $4.60 per share. At present the stocks of the same companies sell for an average of $60 per share. This capitallizes earnings on a 13 multiplier, at virtually the same price of metal as prevailed then, and about 5 cents higher than the 25 cent price that held from January through June.

However, it must be considered that 1957 earnings offer little more than an indication of what may be expected if copper holds at 30 cents. On the one hand higher earnings with the same price of metal might result today from improved efficiency which usually appears when prices are low and pencils are sharpened. Millions have been spent during the last few years on modernization and improved mining and milling techniques by the copper companies and some return from these expenditures can be expected to show in future company reports.

On the other hand higher wage scales were put in effect last summer which unless accompanied by increased efficiency mean higher unit costs. Production was cut back and has only recently been restored. Both Kennecott and Phelps Dodge have returned to full output after having reduced production to as low as 60-70% of capacity. It is likely that others will follow. The ending of the Rhodesian strike will almost certainly be followed by full scale output in an effort to recover shortages.

No Shortage Likely

There is no reason to anticipate any copper shortage in the immediate future or the years ahead, once strikes are ended. Scheduled increases will add rather substantially to present mine capacities. By 1960-61 Anaconda will have its impressive new El Salvador mine in Chile in production and shortly after, the huge Toquepala project in Peru will be sending 100,000 tons a year to world markets. Much the same can be said for Rhodesia where large increases are on the way for Mufukura, Bancroft, and others. These are all believed to be future low cost producers, well below 20 cents a pound. In the United States San Manuel, Magma's big subsidiary, is even now sending some 6000 tons a month to the open market for consumers use that formerly went to the stockpile when the price was less than the 27 cents a pound offered by the Government. Immediate increases in output are indicated from the step-up by American producers which is estimated to add about 25,000 tons a month and to bring monthly production up to a 90,000 ton rate. This if maintained would compare with 93,000 tons per month produced in 1957 and only 64,400 tons last July. At the same time, the big Chilean mines have moved up to capacity output after a 10% cut earlier in the year.

Even if copper should rise above 30 cents a pound as it actually has in London, most trade opinion is that it would not remain at the higher level for any length of time, and that any chance of 35-40 cent copper is merely wishful, and not very well considered thinking. This conclusion receives considerable confirmation from the backwardation on the London Metal Exchange where 90 day copper has been offered as much as 1 to 1½ cents below the price of spot. It can also be emphasized that the important world producers are by no means anxious to see copper price itself out of the market. The dizzy rise to 46-55 cents a pound cost the copper industry a sizable amount of tonnage that went over to aluminum and probably never will be re-

Leading Non-Ferrous Metal Companies

	Net Sales 1956 —(millions)—	Net Sales 1957	Earnings Per Share 1956	Earnings Per Share 1957	1st 9 Months Net Sales 1957 —(millions)—	1st 9 Months Net Sales 1958	1st 9 Months Earnings Per Share 1957	1st 9 Months Earnings Per Share 1958	1958 Div. Per Share*	Price Range 1957-58	Recent Price	Div. Yield
Aluminum, Ltd.	$482.6	$453.4	$1.85	$1.37	$202.2[1]	$174.6[1]	$.88[1]	$.35[1]	$.70	53⅛-26	33	2.1%
Aluminum Co. of America	864.4	869.3	4.24	3.55	656.0	570.7	2.80	1.50	1.20	102 -59¾	87	1.3
American Metal Climax, Inc.	733.5	577.1	2.68	1.95	[1]19.8[2]	[1]11.3[2]	.94[1]	.53[1]	1.20	30⅞-16	27	4.4
American Smelting & Refining	592.9	498.5	6.67	3.94	265.9[1]	200.6[1]	2.14[1]	1.07[1]	1.00	63¾-35⅛	49	2.0
American Zinc, Lead & Smelting	76.8	59.1	2.74	1.07	33.4[1]	19.1[1]	.76[1]	.40[1]	.50	19½- 9⅝	15	3.3
Anaconda Co.	749.4	570.7	12.85	4.23	[1]52.7[2]	[1]14.9[2]	2.66[1]	1.00[1]	2.00	72⅞-39¼	59	3.3
Cerro de Pasco	136.6	115.9	6.51	2.76	56.8[1]	46.9[1]	1.22[1]	.29[1]	.80[3]	59⅝-24⅛	43	1.8
Consolidated Mining & Smelting	135.7	118.8	1.83	1.13	(NA)	(NA)	(NA)	(NA)	1.20	30 -16⅜	22	5.4
Copper Range	49.3	42.4	4.88	1.15	32.5	28.2	1.11	1.11	.50	43½-16½	29	1.7
Eagle-Picher Co.	116.4	117.7	5.88	4.25	90.1	70.1	3.32	1.31	2.20	47½-27¼	40	5.5
Hudson Bay Mining & Smelting	61.0	41.4	7.70	3.03	32.1	29.5	2.42	1.81	3.00	90 -40¼	58	5.1
Inspiration Consolidated	29.6	21.3	7.21	3.15	15.3	15.4	2.34	.75	1.00	55⅜-25⅛	39	2.5
International Nickel	444.7	442.8	6.50	5.90	223.4[1]	165.6[1]	3.13[1]	1.47[1]	2.60	115⅝-66⅜	90	2.8
Kaiser Aluminum & Chemical	343.6	391.6	2.72	1.59	296.4	306.1	1.36	1.06	.90	47¾-22	43	2.0
Kennecott Copper	567.0	467.9	13.23	7.32	364.7	274.1	6.01	3.49	4.00	128½-75⅛	97	4.1
Magma Copper	43.8	47.0	6.21	d1.94	(NA)	(NA)	d.77	d.62	—	71⅛-31⅞	63	—
Miami Copper	39.8	27.8	11.88	3.84	14.2[1]	8.3[1]	2.11[1]	.13[1]	1.00	50¾-24⅛	36	2.7
New Jersey Zinc	(NA)	(NA)	1.31	.63	(NA)	(NA)	.27[1]	.03[1]	.30	47⅜-17⅝	27	—
Phelps Dodge	418.7	287.1	8.72	4.48	163.7[1]	112.3[1]	2.79[1]	1.35[1]	3.00	63⅞-37	61	4.9
Reynolds Metals	405.2	446.5	3.93	3.28	114.9	110.5	2.40	2.39	.65	70¼-32¼	64	1.0
St. Joseph Lead	119.9	106.8	3.88	3.04	83.2	53.2	2.64	.96	1.00	46¼-22	32	3.1
U. S. Smelting Refining & Mining	46.0	42.7	4.50	d1.58	(NA)	(NA)	2.63[1]	d1.21[1]	—	64½-25	37	—

*—Based on latest annual dividend rate.
NA—Not available.
d—Deficit.
[1]—1st 6 months.
[2]—Net before taxes.
[3]—Plus stock.
[4]—Action deferred July 30/58.

Aluminium Ltd.: Hard hit by Russian competition in British and European export markets but low cost hydro power, strong finances, give long term appeal. (A-2)

Aluminum Co. of America: world's largest producer, completely integrated. Has long range appeal. (A-2)

American Metal Climax: dividend income will be sharply reduced from Rhodesian stock holdings but may be compensated by larger earnings from recent merger with Climax Molybdenum. Well diversified. Strong management. (A-2)

American Smelting & Refining: world's largest smelter, important producer of lead, zinc silver. Controls Toquepala, future huge copper producer in Peru. Now producing from new asbestos mine in Quebec. Interests are worldwide. (B-2)

American Zinc, Lead, & Smelting: operates low cost zinc mines in Tennessee, large are reserves. Made good record during period of depressed zinc prices. (B-2)

Anaconda. Completely integrated copper producer with important output of zinc and silver. Owns Chile Copper and El Salvador mines both low cost producers. Largest American uranium producer. Also aluminum producer. (B-2)

Cerro de Pasco: will be hurt by lead-zinc quotas an exports to U.S. but has acquired important domestic fabricators for copper and aluminum which will improve earnings through diversification Owns 16% of Toquepala project in Peru. Aggressive management. (B-2)

Consolidated Mining & Smelting Co.: Canada's largest smelting company, owns huge Sullivan lead-zinc property. Controlled by Canadian Pacific Railroad. (B-2)

Copper Range: owns White Pine mine, second only to San Manuel as new major copper producer, expected to be low cost. Reserves impressive. (C-1)

Eagle Picher: now concentrating activities in manufacturing rather than mining but still important factor in lead-zinc. Mines generally high cost. (B-2)

Howe Sound: merged with Haile Mines in 1958. Closed Canadian properties but operating cobalt mine and refinery in Utah. Now principally interested in industrial projects. (C-3)

Hudson Bay Mining & Smelting: well managed Canadian zinc-copper producer, strong finances, somewhat limited reserves. (B-3)

Inspiration Copper: large well managed medium cost producer. Ore reserves increased by acquisition of Christmas Copper property which promises to add to life of mine. (B-2)

International Nickel: world's largest nickel miner, also leading Canadian copper producer. Now developing important new nickel deposits at Mystery Lake. Over supply of nickel and recent strike at Sudbury will affect current earnings but future is good. (A-2)

Kaiser Aluminum: fully integrated aluminum producer, large interest held by Kennecott Copper. Ranks third among U.S. aluminum companies. (C-2)

Kennecott Copper: world's largest copper producer with important output of gold and molybdenum. Fully integrated. Owns Braden mine in Chile, large low cost producer. Owns half of Quebec Columbium along with Molybdenum Corp. (A-2)

Magma Copper: main asset is San Manuel mine, major new copper producer, now making headway after slow start. Dividends may be delayed until capital repayments to Government are repaid. (C-2)

Miami Copper: well managed low grade copper property, limited reserves. Strong finances and investment portfolio permit dividends even if not earned from current mining operation. (C-3)

National Lead: highly diversified manufacturer of lead products, titanium, mines barite, nickel. True growth company, management especially capable. (A-2)

New Jersey Zinc: old line zinc producer, largest in U.S. Position improved through successful development of Friedensville mine which has replaced old Franklin property. Holds one third interest in Quebec Iron & Titanium Co. (B-1)

Phelps Dodge: second largest domestic copper producer, completely integrated. Mines are low cost. Successful management. Present production wholly within U.S. (A-2)

Reynolds Metals: highly aggressive aluminum producer, now ranks next to Alcoa in U.S. Completely integrated. Important contracts with General Motors and Ford. (B-2)

St. Joseph Lead: Largest U.S. lead producer, major factor as well in zinc. Large low grade reserves but generally low costs. Will benefit from imposition of quotas. Extensive interests in Canada, Argentina, Morocco. (B-2)

U.S. Smelting, Refining & Mining: operates mining and smelting plants in Utah, also gold dredging in Alaska. Mines generally high cost. Successful in oil operations. (C-3)

Ratings: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

gained. No one craves to see this repeated. Sir Ronald Prain, chairman of Rhodesian Selection Trust, one of the two principal Rhodesian groups of mines, declared that a price of 30-31 cents for copper would provide a satisfactory profit for producers, encourage the development of new copper deposits, and eliminate fear of successful competition by other materials in copper's principal markets. The past reluctance of Kennecott, the country's largest producer, to spearhead any rise in the copper price, appears eloquent testimony of accord with this belief.

Zinc and Lead

The first price change for zinc occurred in October when two swift moves shoved it up from 10 to 11 cents a pound. Lead in the meantime had surged from 10¾ to 13 cents. It was high time. Both metals had been selling for well over a year at levels that producers dolefully declared were below production costs for most mines and completely wrecked profits. There was little argument on that point as nine months earnings for such sterling producers as New Jersey Zinc, St. Joseph Lead, and Bunker Hill showed nominal profits or actual losses. The gratefully-received price advances followed close on the heels of the President's decision to establish quotas on foreign imports of lead and zinc on October 1. This was the Administration's answer to pleas for higher tariffs, which were politically unpalatable, or for subsidization of domestic producers as proposed by the Seaton Plan which failed to win Congressional approval.

However it seems likely that even without the quotas set on imports some improvement would have been witnessed for both metals. Domestic mine output had been drastically reduced. Important smelters had been shut down. Consumers had been scraping the bottom of their inventory barrel for months, and it needed only the quickened industrial tempo that became so evident in August to bring buyers back into the market with a rush. Trade papers reported the orders for zinc and lead were the best in years week by week. The marked step-up in the steel operating rate extended to sheet and hot dip galvanizing, and on top of this was a revival in demand for Special High Grade zinc from the diecasters for the 1959 autos. Battery makers were placing heavy orders for lead. Deliveries to domestic consumers in September were the largest for the year.

Improvement was made strikingly evident in the most recent statistics for both metals. For zinc, domestic shipments in October were at a record high of 93,000 tons for the month, the highest figure for 1957-8. Beginning in May, every month has shown an increase in shipments. As a result, stocks of slab zinc held by the smelters have declined to 210,100 tons at the end of October, 48,000 tons under the peak backlog at the end of July.

The Prospects

The prospect for continued improvement in the statistical position for both lead and zinc is good and further price advances may well be witnessed, probably up to the level proposed by the Senate in its amended version of the Seaton Plan—13½ cents for zinc and 16 cents for lead. The prospect of such higher prices would be definitely enhanced if the proposed London meeting for representatives of world lead and zinc producing countries to be held under auspices of United Nations, should arrive at an informal if not rigid government understanding to curtail production on a world-wide basis and bring about a better balance between demand and supply.

A few salient facts, however, unpalatable, should be realized by investors in lead and zinc shares. Few domestic producers of these metals can compete successfully with foreign mines because of two factors, a higher metal content for most mines abroad and a substantially lower wage scale. Combined, these result in lower unit costs against which the cost of transportation to markets is usually a minor factor. Second, normal consumption in this country can not be supplied without imports to supplement domestic mine production. Even if zinc and lead prices were advanced much higher than the proposed stabilization levels it appears doubtful if domestic mines could supply all the metal needed. In short some imports are necessary. The only debatable point is the amount of imports to be allowed that would still permit the domestic industry to operate and show a fair profit.

Lead and zinc smelters in this country are quite naturally disturbed over the prospect of losing normal imports of lead and zinc concentrates. They are dependent for capacity operations on steady supplies from abroad. There is the further likelihood that foreign zinc and lead producers deprived of a market in this country would seek government aid in processing their ores at home with inevitable loss of employment and markets by domestic smelters. The extent of our imports of zinc ore and concentrates is indicated by figures last year which showed 525,700 tons, approximately half the raw material for our own domestic smelters.

The quota established by the President is at the rate of 80% of the average imports during the years 1953-7 inclusive. During this period zinc imports averaged 651,200 tons annually, hence the allowable quota is 520,960 tons which include both slab zinc and the zinc content of ores. This is a reduction of 130,240 tons from the average, but a much sharper reduction from current import levels. As a result of the quota imposed, estimated domestic mine production would have to be increased at least 40,000 tons, probably more. This would imply a higher price for zinc than 11 cents probably at least 12½ or 13 cents such as averaged in 1955-6. Somewhat similar reasoning applies to lead.

Aluminum

It's been said that aluminum producers have two things in abundance, metal and confidence. From a position of scarcity that characterized the industry until 1957, producers who were used to a 10% annual increase in demand began to realize with the start of 1958 they were confronted with some of the same difficulties as had been faced by other non-ferrous metal producers. They entered the year with acknowledged plant over-capacity and heavy carryover stocks of metal. It became necessary, just as for copper, lead and zinc producers to curtail output and bring it in line with reduced industrial demand. This was urgently required because of withdrawal of a strong *(Please turn to page 215)*

New life and pick-up in Sales of HOUSEHOLD APPLIANCES

By Robert C. Ringstad

THE nation's economy has staged an impressive rebound from the 1957-58 recession. The Index of Industrial Production has gained 8.7% from its low point earlier this year and Gross National Product reached an annual rate in the September quarter of over $440 billion. The manufacturers of major home appliances appear to have benefitted more than proportionally in this improvement. Under the stimulus of an upturn in residential building, remodeling activity, especially kitchens — and a quick resumption of the uptrend in personal income, appliance production (seasonally adjusted index) bounced back to 132 in August from the April low of 102 as manufacturers moved to replenish abnormally low inventories and to satisfy the brisker demand.

1957-A Poor Year

It was natural in the recession for the consumer, doubtful of future earning power and unwilling to incur substantial credit liabilities, to defer purchasing large appliances. Since a major part of certain appliance buying is to replace out dated, but serviceable, models, a delay causes no real inconvenience. Total sales of electrical appliances last year slipped to $7.9 billion from $8.4 billion the year before. However, the appliance industry, in common with others in a generally overexpanded economy, was due for some sharp setback.

A brief look at the appliance industry in the years since World War II ended should aid greatly in viewing it presently in its proper perspective. Appliance makers (and all durable goods manufacturers) thrived on the pentup demand which had built up to a seemingly insatiable level during the war years, when everyone had lots of money and nowhere to spend it. However, opportunists, bent on grabbing a slice of this lucrative pie, quickly invaded the appliance manufacturing field and by the time of the Korean War, considerable overcapacity had developed. There was some scare buying during the Korean War which hid the problem and in the following years, easy credit and a housing boom carried the industry still further.

Industry Pays For Excesses

The excesses of the industry finally caught up, though, and dwindling profit margins obliged a number of appliance makers to drop out of the field. Most of these companies lacked the financial resources to compete effectively in a highly competitive market. Only those with adequate finances and boasting a broad enough product line to attract and hold a strong distributor organization were able to survive. Those who dropped out, further aggravated the situation by dumping their products on an already glutted market, thus upsetting the whole price structure. Very few companies offering a limited product line are still firmly entrenched in the appliance field. The notable exception is the

Maytag Company, whose operations will be outlined in detail later in this discussion.

The Advent of the Discount House

When the appliance industry was flat on its back the discount house came into the picture as a means for establishing a price level that would move the huge inventories.

The combination of lingering demand and overcapacity in the industry enabled the discounters, who depend on a high volume of sales at a low mark-up, to operate successfully. The effect of appliance selling at both the retail and the manufacturer level was startling. Many were forced out of business, competitive conditions virtually obliged manufacturers to shade prices, and consumer confidence in brand names was severely shaken.

Discount houses are now an established part of the retail scene, and despite increased competition and greatly increased costs of doing business, are still able to operate at lower costs than other retail outlets.

Since Fair Trade practices were scrapped only last March, the total effects have not been fully reflected. However, there is already a marked trend toward the better-known brands, which assures consumers better service and more reliable warranties than were generally believed available from the discount house.

The original price-marking policies of the discounter have been adapted by many other merchandisers, often in concert with manufacturers, but consumers are said to be becoming increasingly suspicious of supposed price cuts. The final effect will undoubtedly be more honest pricing.

Immediate Outlook

It has already been noted in this discussion that the appliance makers are participating fully in the economic recovery. Some statistics just released should support this contention.

September Production of Major Appliances
(In thousands of units)

Appliance	1958	1957
Freezers	121.2	79.0
Ranges	124.8	122.3
Refrigerators	294.8	265.2
Washers	423.1	392.7
Dishwashers	43.0	36.7
Vacuum Cleaners	302.9	299.6

Source: Electrical World

While total production to date for most individual appliances is still behind last year, it is clear that the present rate exceeds the rate a year ago. Just what are the chances that this pattern will continue?

For the remainder of 1958, comparisons should of course be highly favorable, since the 1957 results reflect the recession then clearly evident. In September, residential housing starts on a seasonally adjusted annual basis reached the highest level in nearly three years, 1.22 million. This is 20% ahead of a year ago and 33% over the low point of last February. Indications are that housing starts for the full year will total 1.1 million, up from 993,000 in 1957. Some disturbing signs (substantial repossessions, slackened demand for the homes now being built, and a tightening of mortgage funds) point to a lower level of starts next year. Not to be overlooked is the possible pressure from the newly-elected Democratic Congress for a relaxation of

10 Leaders in the Household Appliance Field

	Net Sales —(millions)—		Earnings Per Share		1st 9 Months Net Sales —(millions)—		1st 9 Months Earnings Per Share		1958 Div. per Share(*)	Price Range 1957-58	Recent Price	Div. Yield
	1956	1957	1956	1957	1957	1958	1957	1958				
Admiral Corp.	$185.8	$172.6	$.64	$.41	$48.0	$46.4	$.28	$.40	$—	16⅛- 6½	16	— %
Borg-Warner Corp.	598.6	608.5	4.01	3.81	137.7	129.2	2.49	1.45	2.00	46 -25⅝	35	5.7
General Electric	4,090.0	4.335.6	2.45	2.84	3,169.2	2,982.6	2.10	1.85	2.00	72⅝-52⅜	69	2.8
General Motors	10,796.4	10,989.8	3.01	2.98	8,235.0	6,744.2	2.14	1.39	2.00	50¼-33⅛	49	4.0
Maytag Co.	113.0	98.6	4.90	3.78	73.5	74.5	2.69	3.45	2.40	46½-22	43	5.5
McGraw-Edison	248.8	256.6	2.96	2.83	133.1(1)	111.5(1)	1.56(1)	.86(1)	1.40	47 -29⅞	38	3.8
Philco Corp.	356.5	372.6	.05	1.00	275.0	244.9	.64	.01	—	24¼-11	24	—
Sunbeam Corp.	121.8(1)	104.9(1)	3.75(1)	3.03(1)	26.4(3)	14.0(3)	.60(3)	.11(3)	1.65	57¾-39⅛	52	3.1
Westinghouse Electric	1,525.3	2,009.0	.10	4.18	1,477.2	1,384.5	2.83	2.79	2.00	69⅝-52⅜	67	2.9
Whirlpool Corp.	390.9	402.3	2.21	1.61	324.9	297.0	1.58	1.02	1.00	28⅞-15¾	27	3.7

(*)—Based on latest dividend rate.

(1)—Year ended March 31, 1957 & 1958.
(2)—1st 6 months.
(3)—Quarter ended June 30, 1957.

mortgage credit. There is a real need for a higher level of housing.

The trend to larger families renders millions of two-bedroom homes inadequate. In addition, the Federal highway program both destroys existing homes and opens up new areas for urban development previously considered inaccesible to major population centers.

- While new housing is a significant demand factor for appliances, other bright spots should be considered. There is a noticeable trend on the part of many home buyers to purchase older homes. These usually offer far better value for the housing dollar but remodeling of kitchens, bathrooms and sometimes plumbing is usually necessary.
- The rate of family formations is not currently expected to increase. The supply of marriageable persons is low and will be for a few years as the low birth rate of the depression thirties takes effect. In 1935 only 16.9 children were born per 1,000 population, while the figure was 24.1 in 1946 and 25 in 1957. However, within five years, the baby boom of the war years will come of age and once again we will face a population explosion.
- Personal income is the major economic indicator affecting appliance demand, which reached an annual rate of $357.5 billion this September, up from a February low of $346.4 billion. In the September quarter this year retail sales were at an annual rate of $200.6 billion.

  By the end of next year, it has been estimated by one source that retail sales will reach the $220 billion level and that appliance sales will show a 10% gain, in 1959. This is a reasonable expectation, considering the deferred demand built up during the recession.

In the annual economic-outlook conference of the University of Michigan, leading economists and business leaders predicted a 25% gain in corporate earnings for 1959. Those hardest hit by the recession should show the sharpest recoveries. This presages well for the appliance makers, and from all indications, they are running true to this form.

Nature of Market

Before predicting a rosy earnings picture, perhaps a closer look should be taken at the market in which appliance makers products must be sold. This can best be illustrated graphically by the accompanying table, which shows saturation levels of various appliances.

Appliance Saturation

Appliance	Homes with Appliances Number	% of Total
Air Conditioners	4,650,000	9.6%
Dehumidifiers	910,000	1.9
Dishwashers	2,525,000	5.2
Dryers, clothes	6,650,000	13.7
Freezers	9,350,000	19.2
Ranges (standard)	14,300,000	29.2
Refrigerators	47,300,000	97.3
Vacuum Cleaners	33,200,000	68.3
Washers, electric	43,000,000	88.5

Replacement sales obviously play a major role in the sales of certain appliances, Refrigerator sales are better than 75% for replacement. The appliance makers have not stood still in the face of this problem. Most offer new models every year, which incorporate dramatic styling and technical advances, thus quickening the consumer's desire to replace and hastening obsolescence.

Replacement Demand Growing

Obsolescence is perhaps the primary shorter range demand factor affecting appliance sales. The average useful life of appliances is somewhere around ten years. This means we are entering a period when replacement of appliances bought in the immediate post-World War II years will become increasingly important. The manufacturers have helped this along with such advances as completely automatic timing of cooking for ranges; multi-cycle washer-dryers to suit the particular properties of the new miracle fibers; automatic defrosting, special food compartments, bottom drawer freezers and revolving shelves for refrigerators; wall ovens and for all appliances, mix-or-match color schemes (one leading manufacturer now offers removable colored panels to be interchanged at the housewife's fancy). No better example of technical advances overcoming a saturated market can be found than combination washer-dryers. In 1957 this appliance was the only one to post a sales gain over the year before — a most impressive 75% increase.

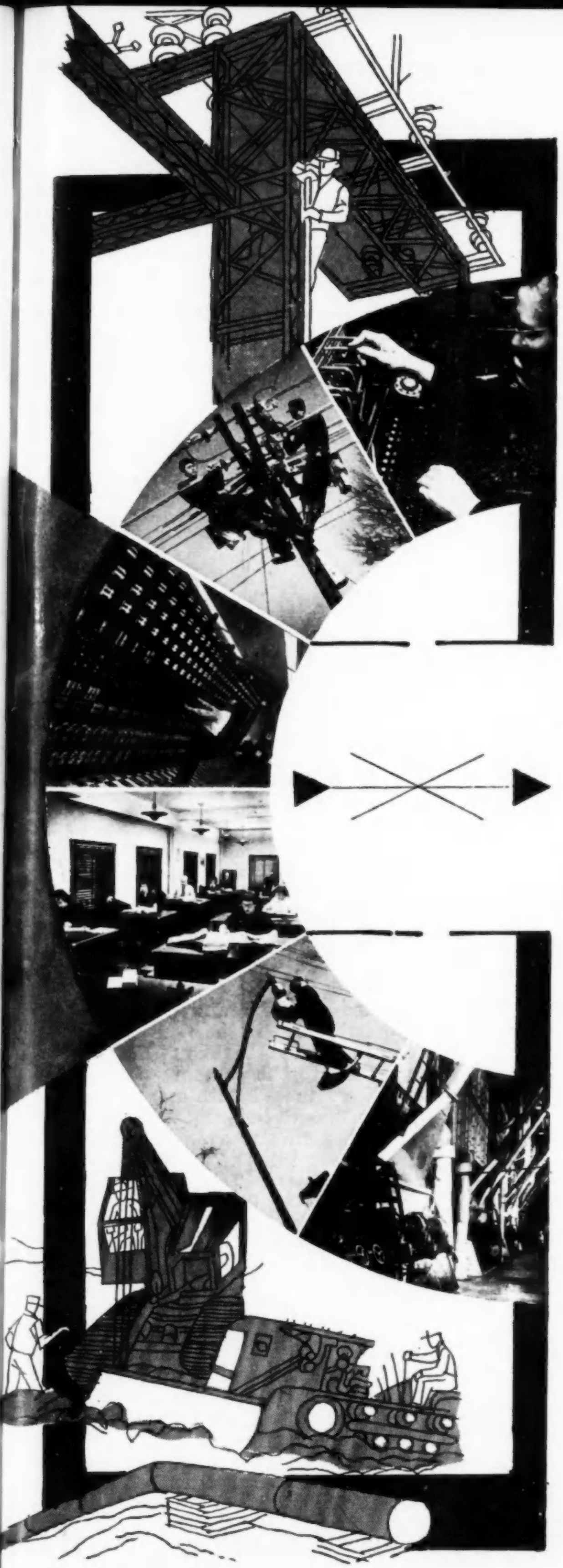
Keenly Competitive

Despite the more settled conditions now existing in the appliance industry, it remains extremely competitive. Production is said to double the level of current sales, and it is very possible that further consolidations will occur. However, these will probably be all to the good and take the form of closings of certain inefficient or unneeded plant facilities with consequent benefit to operating margins. American Motor's Kelvinator Division recently completed such a program, and now has all its appliance manufacturing operations centralized in Grand Rapids, Michigan.

Even with the tail-end of a serious recession to contend with and a rather wet, cool summer, the appliance makers generally have turned in good earnings reports so far in 1958. Appliance retailers look for a 6% sales increase next year and barring a curtailment of the present recovery, earnings should improve in 1959 from the low levels of 1957-58.

Investment Discussion

We will not include General Electric and Westinghouse, which have important stakes in appliance manufacturing, because home appliances happens to be only a division of their overall production. Certainly General Electric and Westinghouse are excellent issues for any investment caliber portfolio, and offer attractive potential through their widely diversified positions in electrical equipment and electronics. It is to be noted that Westinghouse recovered quickly from the effects of the prolonged strike at its plants. *(Please turn to page 206)*



UTILITIES To Benefit From Rate Increases

► **Where higher rates are already in effect**

► **Where they are anticipated**

By Owen Ely

BECAUSE of rising expenses and higher financing costs, many utility companies in the past two years have asked for rate increases. While 6% has long been the standard "fair return" for utilities, when interest rates show a sharp increase and the cost of financing becomes burdensome the regulatory commissions will usually allow a somewhat higher rate, usually in a range of 6¼-7%. This is the situation currently, and many of the state commissions have recognized the importance of the sharp bulge in interest rates on new security issues which occurred last year and again this year. For example, the Florida Commission is allowing 7% or more and the California Commission about 6¼-6½% in recent decisions.

In the past two years more applications for rate increases have been made by the utilities than perhaps ever before in an equal period of time. A number of these have been favorably decided, some were compromised with the utility obtaining part of what it requested, and others are still pending. Unless the decision is over a year old, a rate increase may still be gradually lifting current share earnings—hence the importance of recognizing this factor, as distinct from other influences on share earnings. Without entering into technical details as to the character of the rate base allowed by the commission, the nature of accounting adjustments, etc., this article attempts to summarize the principal cases and the concrete results already obtained or possible in the near future.

Effect of Rate Increases On Earnings

The formula for determining the effect of a rate increase on share earnings seems comparatively simple—take 48% of the increased revenues to allow for Federal income taxes (in California and some other states there may be an additional de-

Utilities To Benefit From Rate Increases

	Operating Revenues 12 Months Sept. 30 1957 (Millions)	1958 (Millions)	Earnings Per Share 12 Months Sept. 30 1957 **	1958 **	% Increase Net Per Share	1958 Div. Rate	Recent Price	Div. Yield	Price-Earnings Ratio	Price Range 1957-58
Alabama Gas Corp.	$27.0[1]	$31.9[1]	$2.30[1]	$2.73[1]	18.6%	$1.60	33	4.8%	12.0	34⅞-23½
Baltimore Gas & Electric	138.7	149.8	2.27	2.30	1.3	1.80	44	4.0	19.1	45 ..-31⅞
Boston Edison	77.1[5]	81.5[5]	2.27[5]	2.66[5]	17.1	2.80	56	5.0	16.4[6]	57½-45
California Electric Power Co.	23.2	25.8	1.09	1.09	—	.80	18	4.4	16.5	18¾-12¾
Cincinnati Gas & Electric	115.6[1]	126.7[1]	1.94[1]	2.01[1]	3.6	1.50	34	4.4	16.9	34½-28¾
Cleveland Electric Illum.	114.2[1]	118.1[1]	2.47[1]	2.59[1]	4.8	1.60	43	3.7	16.6	45 -30
Columbus & Southern Ohio Electric	43.6	45.5	2.58	2.07	19.7[3]	1.60	35	4.5	16.9	36 -26
Commonwealth Edison	376.7	392.7	2.85	3.03	6.3	2.00[2]	52	3.8	17.1	56⅛-35⅝
Consolidated Edison of New York	545.7	568.9	3.31	3.62	9.3	2.80	59	4.7	16.2	59⅝-40¼
Consumers Power	216.7	225.8	3.22	3.21	—	2.40	56	4.2	17.4	57¾-42
Empire District Electric Co.	12.1	12.0	1.55	1.52	1.9	1.20	22	5.4	14.4	22½-15¼
Illinois Power Co.	85.3	90.4	1.88	2.05	9.0	1.50	35	4.2	17.0	35½-25⅛
Indianapolis Power & Light	45.3	47.8	2.05	2.12	3.4	1.50	36	4.1	16.9	36 -26
Iowa-Illinois Gas & Elec.	40.1	42.7	2.58	2.41	6.5[3]	1.80[2]	35	5.1	14.5	38½-28¼
Iowa Power & Light	37.5[1]	40.3[1]	2.07[1]	1.99[1]	3.8[3]	1.60	33	4.8	16.5	34¾-24⅛
Long Island Lighting	106.8	118.9	1.43	1.62	13.2	1.20	29	4.1	17.9	29⅝-19¼
Minnesota Power & Light	27.0	26.4	2.53	2.33	7.9[3]	1.60	33	4.8	14.0	34½-25
Montana Power	42.4	43.3	3.69	3.81	3.8	2.00	64	3.1	16.7	64½-38½
New York State Gas & Electric	86.7	95.2	3.05	3.69	20.6	2.00	49	4.0	13.2	50½-32¼
Niagara Mohawk Power	252.4	262.1	1.86	2.14	15.0	1.80	37	4.8	17.2	38¼-26¼
Oklahoma Natural Gas	(NA)	(NA)	1.73[4]	2.19[4]	26.5	1.50	38	3.9	17.3	39½-22⅝
Pacific Gas & Electric	485.2[1]	517.7[1]....	3.32[1]	3.67[1]	15.0	2.40	59	4.0	16.0	60 -43¾
Public Service Electric & Gas	317.1	336.4	2.13	2.23	4.6	1.80	35	5.1	15.6	36¾-28⅛
Rochester Gas & Electric	59.1	63.7	2.23	2.45	9.8	1.60	38	4.2	15.5	38¼-26⅝
San Diego Gas & Electric	52.7[4]	57.2[4]	1.40[4]	1.30[4]	7.1[3]	.96	26	3.6	20.0	26⅞-17¼
Southern California Edison	213.0	246.6	3.09	3.51	13.5	2.40	56	4.2	15.9	57¼-44⅞
Tampa Electric Co.	28.8	31.4	1.66	1.64	1.2[3]	1.20	43	2.7	26.2	45¼-27¼
Union Electric Co.	125.6[1]	130.0[1]	1.64[1]	1.65[1]	—	1.52	31	4.9	18.7	32½-24⅞
Washington Gas Light Co.	48.4	58.1	2.46	3.34	35.7	2.24	46	4.8	13.7	47 -30⅜
Western Union Telegraph	196.2[5]	189.4[5]	1.39[5]	1.12[5]	19.3[3]	1.20	30	4.0	16.6[6]	30¼-14½
Wisconsin Electric Power	89.5[1]	93.8[1]	2.37[1]	2.08[1]	12.2[3]	1.70	35	4.8	16.8	37 -28½

*—Based on latest dividend rate.
**—Earnings as reported.
(NA)—Not available.
1—12 months to June 30.
2—Plus stock.
3—Decrease.
4—12 months to August 31.
5—9 months ended Sept. 30.
6—Based on estimated full year 1958 earnings.

duction for state income taxes) and divide by the number of common shares. However, it is sometimes difficult, due to bi-monthly billing and other delaying factors, to determine just when the increased revenues will become fully effective. Also, over the ensuing 12 month period, there may be partially offsetting factors such as wage increases, dilution from the sale of common stock, reduction in the interest credit on construction, etc. Hence, it is usually safer to be conservative and discount the amount of the increase somewhat. Moreover, so far as the effect on the stock may be concerned, the price rarely goes up after the announcement in the same proportion as the increase in earnings; usually the news has been discounted to some extent—also it may not be fully effective until an increase in the dividend rate is made.

The telephone companies have been seeking increases with some success (except in certain states where political factors prevent) but since the applications usually extend over a number of states with differing time schedules, it is difficult to assess the exact effect on earnings. **Western Union Telegraph** obtained some rate increases recently (mainly to offset a large wage increase), and has now asked the FCC for an increase of $7.7 million on private line teletype rates. This was suspended until January 1 by the Commission. Recently the company scaled down the amount to $5.5 million which would go into effect December 1st if the Commission approves. The increase would be about 17% in revenues, and according to the company would give it a return of 5.4% compared with only 2.3% now earned on the investment before taxes. **American Tel. & Tel.**, which has a similar case, had scaled its request down from $11 million to $8.4 million.

Natural Gas Rates

In the natural gas industry a large number of rate increases are slowly being processed by the Federal Power Commission, and in some cases by State Commissions or courts. But the situation with respect to the large pipeline systems is very complicated, and can hardly be satisfactorily discussed until there is a decision in the Memphis case now before the Supreme Court. With the gas retailers the matter is less complicated, hence brief comment may be warranted before turning to the electric utility cases. Estimates of per share equivalent of rate increases are after Federal taxes.

Washington Gas Light, serving Washington, D. C. and environs, received increases from three commissions aggregating about $2.6 million and effec-

tive around September 1, which was equivalent to about 89¢ a share. On September 25 **Alabama Gas Corp.** was granted an increase of nearly $3 million, most of which was earmarked to meet an increase in the cost of gas from the supplier, Southern Natural Gas. However, the company has appealed to the Circuit Court for an additional amount which, if received, is estimated at about $1.4 million or perhaps 70¢ a share. The company is expected to earn about $2.80 this year, but since the weather during the last heating season was the coldest in the past sixty years, recent earnings have been well above normal. If the court appeal is lost, and weather next winter is normal, 1959 earnings might be estimated at around $2 to $2.10; with the rate increase, they might remain around $2.80. **Oklahoma Natural Gas** obtained an increase of $4.3 million last December (a 6¼% rate of return); the Commission dismissed attempts to re-open the case this summer.

Electric Utilities By Areas

Regarding the electric utilities, comment by areas may be advantageous. In the southeast and the south, especially in Florida and Texas, there have been relatively few increases since the utilities in those areas are among the most prosperous in the country, and most of them are earning a satisfactory rate of return. Of course there is no state regulation in Texas and there have been some cases in recent years where utilities have increased their rates by negotiation with municipalities. When an important franchise comes up for renewal this may also be the occasion for rate adjustments. Thus **Houston Lighting & Power Company** in October last year obtained a new fifty-year franchise which increased the payment of the gross receipts tax to the City from 2% to 4%, with some offsetting rate adjustments on services furnished to the City, the net affect of which were not indicated. The company has asked the 37 other cities which it serves to enact similar fifty-year franchises and a majority of them have done so.

In Florida, the Commission in the summer of 1957 ordered **Florida Power & Light** to cut its rates moderately, but this did not prevent the company from continuing to show gains in share earnings. The company was allowed a rate of return of about 7% and is perhaps earning moderately in excess of that amount at present; however, inclusion in the rate base of new generating plants over the coming months, should again reduce the earned return. **Tampa Electric** in December 1957 asked for an increase of about $3.1 million to raise its rate of return to around 6.9%, and in June the Commission allowed a little over half this amount. The company indicated that it might ask the Commission to reconsider the decision, and the present status of the case is not clear. The allowed increase was equivalent to 32¢ a share.

In California, another rapid growth area, the utility companies in past years have had difficulties in obtaining benefits for stockholders from this growth because of special problems relating to costs of operation, plus an unfavorable regulatory set-up. In the past two years, however, most companies have been able to obtain rate relief to offset higher costs, and a more liberal rate of return—6¼% or 6½%—has been allowed. **Southern California Edison** in October 1957 obtained an electric rate increase of $25 million (the company requested $34 million) equivalent to about $1.32 per share; this increase is probably not quite fully reflected in reported earnings as yet.

Pacific G. & E. obtained an increase of $9.5 million (25¢ a share) effective August 1, 1958. **California Electric Power** on May 1st this year obtained an increase of $2,032,000 or 28¢ a share. Very recently **San Diego Gas & Electric** obtained an increase equivalent to about 76¢ a share; only a small part of this will be reflected in 1958 earnings. The company recently reported share earnings of $1.30, and with the increase in full effect for the calendar year 1959, earnings for that year might be expected to reach $1.90-$2.00 after some allowance for increased expenses. It is possible, however, that the company may decide to issue some common stock late in 1959, instead of early in 1960—if so, 1959 earnings on increased shares might be diluted to around $1.75. However, since supplies of fuel oil are now adequate and prices somewhat lower, it is possible that California utilities may be able to reflect a larger proportion of their rate increases than would otherwise be the case.

There have been comparatively few rate cases of importance in the West, other than those of California. **Montana Power** in July obtained an increase equivalent to 59¢ a share. **Southern Nevada Power** on April 1st obtained an increase equivalent to 58¢ per share.

New England has traditionally been an area of adverse regulation and in some of the states this bleak atmosphere still prevails, except perhaps in Massachusetts. Last December the Maine Utilities Commission granted **Central Maine Power** less than one-quarter of its requested increase—about 6¢ a share. **Public Service of New Hampshire** in August asked the Public Utility Commission for a $600,000 temporary rate increase pending a final decision; in 1957 the Company had fared poorly with an effort to gain relief, obtaining only about 6¢ a share. **New England Electric System** obtained an increase of $1.3 million (5¢ a share) in Massachusetts but was "turned down cold" by the Commission and State Supreme Court in Rhode Island, where the subsidiary, **Narragansett Electric**, had asked for $2.6 million. **Boston Edison** on June 1st received an increase in electric rates of $2.2 million equivalent to 39¢ a share. **New England Gas & Electric's** subsidiary, Plymouth County Electric, also obtained an increase in Massachusetts last March equivalent to about 5¢ a share on the parent company stock.

There have been a number of rate increase applications in New York State and the regulatory atmosphere has improved considerably since the days when Chairman Maltbie held forth. **Consolidated Edison** obtained rate increases in the first half of 1958 aggregating about $11.5 million or 40¢ a share. It has also been seeking another increase of $9 million (31¢ a share) in a long-drawn-out proceeding. **Long Island Lighting Company** obtained an increase in gas rates of about $1 million last December, and an increase of nearly $2 million in electric rates July 1st this year. The combined $3 million would be equivalent to about 18¢ a share. **Rochester Gas & Electric** on June 1st this year obtained an increase equivalent to 52¢ a share. **New York State Electric & Gas** *(Please turn to page 209)*

FOR PROFIT AND INCOME

December

The final month of the calendar year has the most firmly established market pattern of any. Rarely have prices failed to rally between mid-December and January. In part this can be explained by the fact that tax-loss selling usually reaches its high point late in November and has virtually ended by mid-December, setting the stage for a holiday-season rally. This year may witness some change in the pattern however. Losses are few, therefore tax-loss selling will probably be light. On the other hand. selling to establish profits may be inordinately heavy *after* January 1st.

► Reminder — Sales to establish losses can be made up to the last trading day of the year. Profits must be taken four business days earlier. ◄

Profits Abroad

Investors interested in participating in America's expanding markets abroad have focused their attention on the drugs, oils and similarly spectacular industries. Largely overlooked has been H. J. Heinz, which boasts at least "57" good reasons why the stock should attract greater attention. Operations in the U. S. have been mediocre in recent years, but these results have overshadowed truly remarkable progress overseas where income has tripled in the last 5 years. Moreover, undue importance has been placed on Heinz' domestic earnings since currently almost 82 per cent of profits stem from offshore activities.

Of special interest currently is their new Benelux subsidiary which bids fair to eclipse the highly successful operations in the United Kingdom and Australia. Earnings eased moderately in fiscal 1958, but a return to the $6.00 per share level is anticipated in the current year. The $2.20 dividend is thus assured of excellent coverage, and an increase in the near future is a distinct possibility. This high grade company has maintained an unbroken dividend record since 1911.

The Technical Side

Many stocks now exhibit powerful technical formations, even

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Caterpillar Tractor Co.	Quar. Sept. 30	$1.54	$1.08
Florida Power Corp.	9 mos Sept. 30	2.88	2.28
Southern Co.	12 mos. Sept. 30	1.77	1.58
Continental Baking Co.	13 weeks Sept. 27	1.22	1.13
Flintkote Co.	Quar. Sept. 30	1.13	1.03
Stauffer Chemical Co.	Quar. Sept. 30	1.22	.94
Western Auto Supply	Quar. Sept. 30	.62	.57
Chance Vought Aircraft	Quar. Sept. 30	2.12	1.32
Clevite Corp.	Quar. Sept. 30	.49	.39
Owens-Corning Fiberglas	Quar. Sept. 30	.45	.37

though their underlying business picture may not appear to bear out the picture of the charts. Sensible investors (especially those who study the charts) will rarely move unless both factors are positive. For this reason the following stocks are of interest. All show up excellently on the charts, and are backed up by better earnings prospects.

Chesapeake & Ohio which afford a rich $4.00 dividend, has had no trouble covering its payments even in this trying year. Very recently the stock broke out of an overhead resistance area and should respond well to the better earnings being reported each month.

Eastman Kodak, after several months of consolidating prior gains, also shows signs of breaking into higher ground. Of special interest here is the company's new synthetic which is expected to compete successfully with nylon.

American Viscose, after two depressed years has proved to be "sold out" and is in the midst of a major move. Optimism in this issue is fortified by the capacity operations of the Chemstrand subsidiary which should contribute about $2.00 per share in earnings to Viscose next year.

On the negative side, Deere & Co., which has been a star among the farm equipment producers appears to have run into strong resistance. In addition, recent statements from the Department of Agriculture indicate some drop in farm income last year. Under the circumstances long-term profit taking is in order.

Rail Equipments

The general economic recovery pinpointed the advantages most of the nation's railway equipment makers have realized from diversification. Railway equipment ordering is still in a deep slump, but many of the rail suppliers are enjoying their most profitable "depressions." Westinghouse Airbrake, for example, has managed to keep earnings at respectable levels because of its important electronics contracts and should have no trouble paying its $1.20 dividend. New York Airbrake is benefitting from the excellent demand for farm equipment, and several other companies have received important orders for their newly established auto equipment and oil field equipment subsidiaries.

The picture is brightened by the upturn in carloadings which has spurred railroad managements to begin rehabilitating run down equipment. Baltimore & Ohio, for example, recently announced its intention to spend $20 million in a repair program designed to return 8,000 cars to serviceable condition. Other roads are taking similar steps. The results could well be a quicker and sharper recovery than the equipment makers have enjoyed in recent years.

What's Average?

Probably nothing illustrates the meaninglessness of most market averages as much as a recent compilation which showed that if A. T. & T. had not been substituted for I.B.M. in the Dow-Jones Industrials a few years back, the markets level would now be approximately 1780 instead of 560. For those interested, this would place the D-J at 60 times 1958 earnings, and the yield would be infinitesimal.

Goal Reached

Readers of this column probably were not greatly surprised by American Chicle's proposal of a two-for-one stock split, and the market's subsequent response. A brisk rally carried the stock well ahead of Wrigley, achieving an objective mentioned in our previous issue, when the opinion was expressed that a higher price for the stock was imminent. The shares still appear more attractive than Wrigley.

Let's Go Bowling

One of the fastest growing industries is bowling. Popularity of the sport has gained such headway in suburban areas that establishments are springing up in vast numbers in neighborhood shopping centers. In fact, so many new alleys have been opened this year that trade authorities have expresed concern lest competition may prove burdensome and cause financial difficulties. As a result of the boom, suppliers of equipment — particularly automatic pinspotters — have enjoyed an exceptionally prosperous period. Three companies are major beneficiaries. They are American Machine & Foundry, which introduced the automatic pinspotter several year ago; Brunswick-Balke- Collender, which followed with a slightly different version known as a pinsetter; and Otis Elevator, which manufactures and services the Brunswick machines. AMF leases its equipment at a minimum charge of $800 annually, while Brunswick has adopted a policy of outright sale to alley operators. Installations by Brunswick may be financed by credit companies, of course, which in a way enables the operator to pay for facilities out of income. An idea of the impact on sales and earnings may be gained from scanning interim statements. Brunswick, as an example, reported an increase in sales for the September quarter of almost 100% and net income equal to $4.31 a share, while for the first nine months sales jumped about 70% and net profit rose to $6.36 from $3.53 a share in the corresponding period of 1957. Since AMF's volume is based on rentals rather than sales, the rise in installations will be more evident in the fourth quarter than in the first nine months. Earnings to September 30 dipped to $1.93 a share from $2.45 a year earlier. AMF directors boosted the quarterly dividend to 50 cents from

(Please turn to page 214)

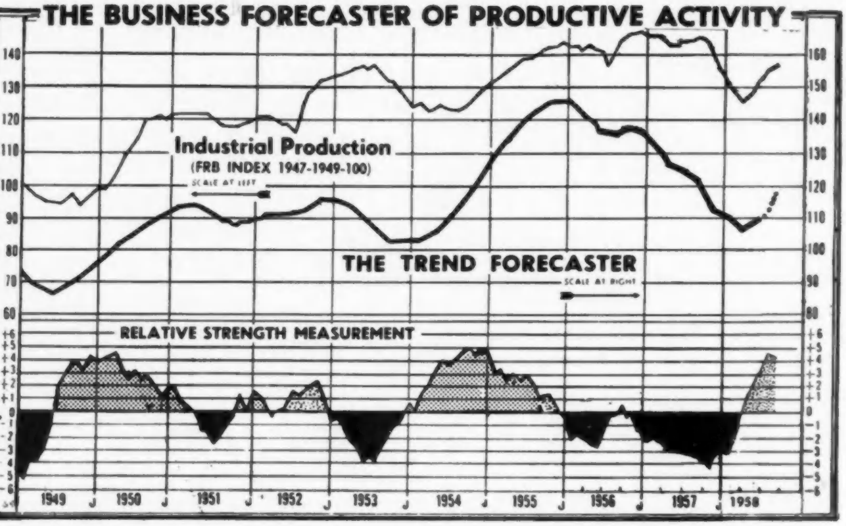
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Colorado Fuel & Iron	Quar. Sept. 30	$ .43	$ .93
Cooper-Bessemer Corp.	Quar. Sept. 30	.62	1.20
United Fruit Co.	9 mos. Sept. 30	2.25	2.90
Atlantic Refining	9 mos. Sept. 30	2.02	3.15
Cream of Wheat	Quar. Sept. 30	.28	.42
Crucible Steel Co. of Amer.	9 mos. Sept. 30	.33	1.60
Fairbanks, Morse & Co.	Quar. Sept. 30	.08	.39
Island Creek Coal Co.	Quar. Sept. 30	.44	.88
Smith-Corona Marchant, Inc.	Quar. Sept. 30	.21	.56
Carborundum Co.	9 mos. Sept. 30	.85	2.33

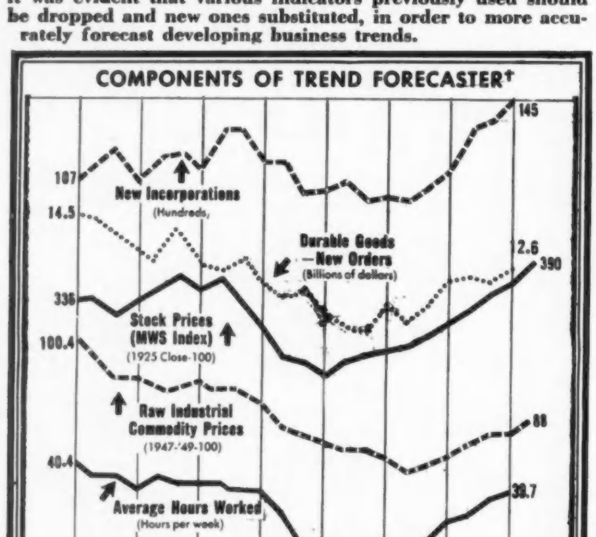
the Business

Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Early in the fourth quarter, the consensus of sensitive indicators entering into the Trend Forecaster remains clearly positive, in the plus three to plus four range as measured by the Relative Strength Measure. However, the rates of change in the individual series have abated somewhat from their rapid improvement of the second and third quarters, and the Relative Strength Measure itself no longer appears to be rising.

Stock prices and raw industrial commodity prices continued to rise in the early part of the fourth quarter, as they had throughout the third quarter. New orders in durables industries, after a slight hesitation in August, advanced moderately in September. New incorporations continued to rise sharply in recent months; business failures have been showing little trend; housing starts have improved moderately further, and nonresidential construction awards have drifted sideways.

The continuance of the Relative Strength measure in the plus three zone points to further expansion in national output into early 1959.

Analyst

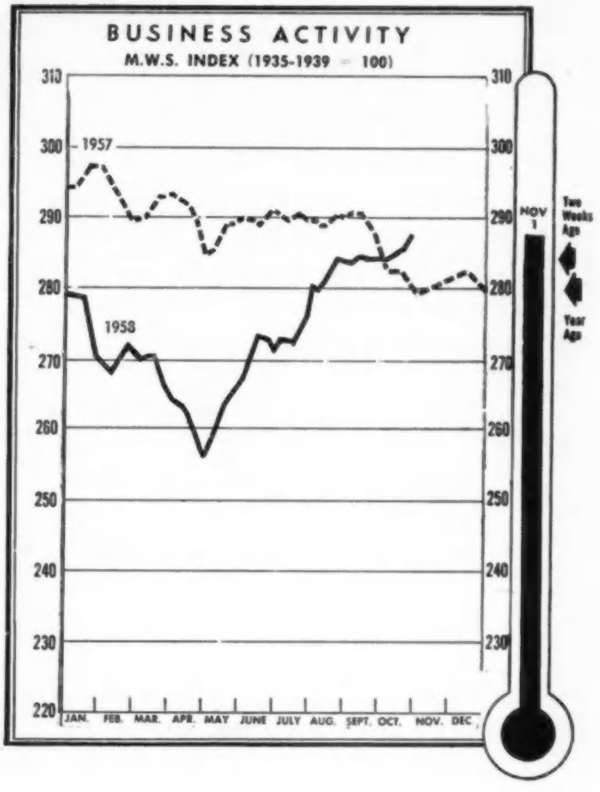
CONCLUSIONS IN BRIEF

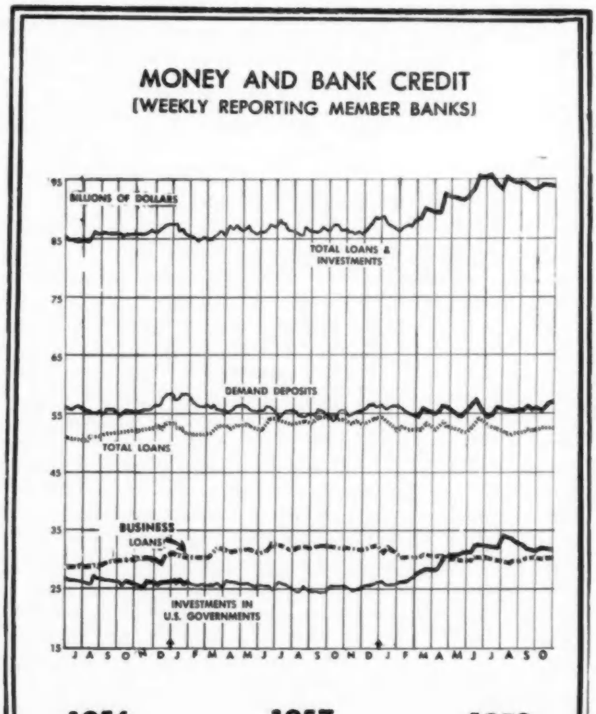
PRODUCTION—rising moderately in the fourth quarter, as auto production gains ground. Further gains, mainly in durables, probable throughout fourth quarter of this year and first quarter of 1959.

TRADE—Volume firm in soft goods, rising slightly in durables except for autos, where shortages of dealer stocks have hurt the selling rate. While tone of trade is not booming, short-term expansion likely from now to Christmas.

MONEY AND CREDIT—Moderate tightness prevails, with some cross-currents (up in the Federal Reserve discount rate, but down, in a few short-term rates) in the past few weeks. Outlook: slight further tightening into the spring.

COMMODITIES—Purchasing agents report updrift in prices, mostly in nonferrous metals and a few other industrial raw materials. This slow uptrend is likely to continue throughout 1958 and into 1959, but is not accelerating; supplies of all commodities will remain abundant.





AMONG many experienced observers of general business conditions, there is now a growing sentiment that the recovery, while far from over, is about to change gears. The switch in the pace of the recovery is not here yet; the recovery of automotive production still lies ahead, and as it develops it will impart some further steam to the trend of general business. But once the auto industry gets back to normal, the boom will have exhausted many of its major stimuli.

Look, for example, at inventory policy. By November, it seems clear that the majority of manufacturing industries had about completed their liquidation, and raised their purchasing rates to about their selling rates. In other words, they had stopped shipping off the shelf. This termination of liquidation has been among the more important strengths in business ordering; the gap has now been closed, and little further strength from this sector thus seems likely.

Or look at housing. While the starts rate has been working its way uphill ever since February, it has recently been running out of steam. And on the horizon are the clouds of tight money and shortages of low-cost, long-term money needed for federally guaranteed housing.

Or look at capital spending. Business outlays for plant and equipment were expected to provide some momentum for business in 1959, by recovering from their very depressed current levels. But a recently released McGraw-Hill survey suggests that the recovery in capital spending will be slight at best.

For the moment, it is thus hard to find an enduring

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	137	136	144
Durable Goods Mfr.	1947-'9-100	Sept.	144	144	160
Nondurable Goods Mfr.	1947-'9-100	Sept.	134	133	131
Mining	1947-'9-100	Sept.	123	120	129
RETAIL SALES*	$ Billions	Sept.	16.6	16.9	16.9
Durable Goods	$ Billions	Sept.	5.1	5.2	5.7
Nondurable Goods	$ Billions	Sept.	11.4	11.6	11.2
Dep't Store Sales	1947-'9-100	Sept.	138	147	136
MANUFACTURERS'					
New Orders—Total*	$ Billions	Sept.	26.8	26.1	26.6
Durable Goods	$ Billions	Sept.	12.6	12.2	12.5
Nondurable Goods	$ Billions	Sept.	14.1	13.9	14.0
Shipments*	$ Billions	Sept.	26.7	26.4	28.2
Durable Goods	$ Billions	Sept.	12.6	12.4	14.1
Nondurable Goods	$ Billions	Sept.	14.1	14.0	14.1
BUSINESS INVENTORIES, END MO.*	$ Billions	Aug.	85.0	85.4	91.3
Manufacturers'	$ Billions	Aug.	49.2	49.4	54.2
Wholesalers'	$ Billions	Aug.	12.1	12.1	12.8
Retailers'	$ Billions	Aug.	23.7	23.9	24.3
Dept. Store Stocks	1947-'9-100	Aug.	148	148	153
CONSTRUCTION TOTAL	$ Billions	Oct.	4.8	4.8	4.6
Private	$ Billions	Oct.	3.2	3.2	3.1
Residential	$ Billions	Oct.	1.7	1.7	1.6
All Other	$ Billions	Oct.	1.5	1.5	1.5
Housing Starts*—a	Thousands	Sept.	1220	1170	1012
Contract Awards, Residential—b	$ Millions	Sept.	1460	1451	1151
All Other—b	$ Millions	Sept.	1756	2016	1399
EMPLOYMENT					
Total Civilian	Millions	Sept.	64.6	65.4	65.7
Non-Farm	Millions	Sept.	51.1	50.6	52.7
Government	Millions	Sept.	7.9	7.7	7.6
Trade	Millions	Sept.	11.1	11.0	11.3
Factory	Millions	Sept.	11.9	11.6	13.0
Hours Worked	Hours	Sept.	39.8	39.6	39.9
Hourly Earnings	Dollars	Sept.	2.14	2.13	2.08
Weekly Earnings	Dollars	Sept.	85.17	84.35	82.99
PERSONAL INCOME*	$ Billions	Sept.	358	356	351
Wages & Salaries	$ Billions	Sept.	239	239	240
Proprietors' Incomes	$ Billions	Sept.	57	57	55
Interest & Dividends	$ Billions	Sept.	32	32	32
Transfer Payments	$ Billions	Sept.	27	27	22
Farm Income	$ Billions	Sept.	17	17	15
CONSUMER PRICES	1947-'9-100	Sept.	123.7	123.7	121.1
Food	1947-'9-100	Sept.	120.3	120.7	117.0
Clothing	1947-'9-100	Sept.	107.1	106.6	107.3
Housing	1947-'9-100	Sept.	127.9	127.9	126.3
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Sept.	108.9	109.2	106.2
Bank Debits*—g	$ Billions	Sept.	85.9	84.9	81.3
Business Loans Outstanding—c	$ Billions	Sept.	30.2	30.5	32.4
Instalment Credit Extended*	$ Billions	Sept.	3.3	3.4	3.5
Instalment Credit Repaid*	$ Billions	Sept.	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Sept.	7.2	4.8	7.2
Budget Expenditures	$ Billions	Sept.	6.6	6.2	5.7
Defense Expenditures	$ Billions	Sept.	3.8	3.5	3.4
Surplus (Def) cum from 7/1	$ Billions	Sept.	(4.5)	(5.0)	(2.5)

PRESENT POSITION AND OUTLOOK

strength on which this business cycle recovery can ride after the first quarter of 1959. Such a strength may emerge (and with a Democratic Congress the strength may even reappear in housing, if a new and more liberal housing bill is passed). But at the moment, a slowing of the rate of recovery appears to be on the horizon when autos return to a normal production rate, when inventory demand is neutral, and when business spending for plant ad equipment is doing little but moving sideways.

* * *

STEEL STRIKE—this possibility, if it materializes, could upset the 1959 applecart, but seriously. And by all indications, it is going to happen.

By mid-1959, there are good grounds for thinking that steel supplies will again be abundant, and that most if not all of the tremendous liquidation of steel by consuming industries will have been replaced. At the approximately 80% production rate that is expected to prevail in the fourth quarter, manufacturing industries which use steel will evidently be accumulating. While 80% is hardly a record production rate, it should be remembered that the industry's capacity is itself at a new record, and that many major buyers of steel—capital goods makers, freight car producers, buyers of oil country goods—have not been heavily in the market. Moreover, the steel producers themselves evidently hold very substantial inventories even now; the steel companies, unlike their customers, never liquidated much inventory during the recession, because so many buyers were demanding almost instantaneous delivery.

The first quarter is likely to see a steel rate even higher than 80%, as users accumulate against the threat of a strike at midyear. The existence of ample inventories, plus the pressure on the union to get a better contract than the auto union got, plus the ammunition the union will attempt to draw from what will doubtless be very satisfactory steel earnings in early 1959, shape up into a major labor — management hassle when the present contract approaches expiration.

* * *

PRODUCTION TREND — The uptrend

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 III Quarter	1958 II Quarter	1958 I Quarter	1957 III Quarter
GROSS NATIONAL PRODUCT	440.0	429.0	425.8	445.6
Personal Consumption	292.0	288.3	286.2	288.3
Private Domestic Invest.	54.5	49.2	49.6	66.7
Net Foreign Investment	0.5	0.5	0.5	3.6
Government Purchases	93.0	90.9	89.5	87.0
Federal	53.0	51.9	50.9	50.9
State & Local	40.0	39.1	38.6	37.8
PERSONAL INCOME	357.5	349.8	347.3	351.8
Tax & Nontax Payments	43.5	42.3	42.3	43.1
Disposable Income	314.0	307.5	305.0	308.7
Consumption Expenditures	292.0	288.3	286.2	288.3
Personal Saving—d	22.0	19.2	18.8	20.4
CORPORATE PRE-TAX PROFITS	—	32.0	31.7	44.2
Corporate Taxes	—	16.3	16.1	22.0
Corporate Net Profit	—	15.7	15.5	22.1
Dividend Payments	—	12.4	12.5	12.7
Retained Earnings	—	3.3	3.0	9.4
PLANT & EQUIPMENT OUTLAYS		30.3	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 1	287.4	285.6	279.8
MWS Index—per capita*	1935-'9-100	Nov. 1	213.8	212.5	212.0
Steel Production	% of Capacity	Nov. 8	74.5	75.0	78.0
Auto and Truck Production	Thousands	Nov. 8	161	123	168
Paperboard Production	Thousand Tons	Nov. 1	318	305	292
Paperboard New Orders	Thousand Tons	Nov. 1	324	291	358
Electric Power Output*	1947-'49-100	Nov. 1	238.5	237.4	229.2
Freight Carloadings	Thousand Cars	Nov. 1	674	674	714
Engineering Constr. Awards	$ Millions	Nov. 6	221	273	148
Department Store Sales	1947-'9-100	Nov. 1	137	140	130
Demand Deposits—c	$ Billions	Oct. 29	57.3	56.7	55.8
Business Failures	Number	Oct. 30	299	275	250

PRESENT POSITION AND OUTLOOK

that has appeared in the Federal Reserves index of industrial production over the past six months has been widely based; virtually all of the individual components of the index have shown improvement.

Among soft-goods industries, output of chemical and petroleum products have recovered to their peak of the fall of 1957, and a further advance seems probable. The paper industry has already exceeded its previous peak activity rate, and is still improving. Textile and apparel production is now higher than at any time in 1957, and about as high as at any time in 1956 (however, the rate of improvement in textile output has slowed in recent months).

Among hard-goods, very few are operating anywhere near their 1957 peaks, but operating rates in these industries are still advancing moderately. In primary metal industries, in metal products lines and in machinery, rapid uptrends are still underway, although all three of these major industrial groups are still 10% or more below their 1957 performance. In transportation equipment, strike-hampered auto output has kept activity at an extremely low level, but rapid improvement is likely here in the last two months of the year.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 High	Range Low	1958 Oct. 31	1958 Nov. 7
300 Combined Average	407.3	283.9	400.1	407.3H
4 Agricultural Implements	347.4	196.5	331.1	347.4H
3 Air Cond. ('53 Cl.—100)	113.7	87.8	111.1	113.7
9 Aircraft ('27 Cl.—100)	1227.8	982.2	1227.8	1198.3
7 Airlines ('27 Cl.—100)	981.9	638.8	964.1	981.9H
4 Aluminum ('53 Cl.—100)	435.8	253.4	410.5	413.0
6 Amusements	180.9	125.0	176.1	180.9H
8 Automobile Accessories	387.2	298.9	375.8	387.2H
6 Automobiles	89.8	40.8	82.7	89.8H
4 Baking ('26 Cl.—100)	38.5	28.5	37.4	38.5H
4 Business Machines	1191.9	898.2	1166.0	1174.6
6 Chemicals	663.8	509.5	648.4	658.7
5 Coal Mining	27.7	18.4	27.0	27.5
4 Communications	143.6	85.7	136.9	143.6H
9 Construction	148.2	107.5	144.1	148.2H
7 Containers	1078.1	707.3	1071.3	1078.1H
7 Copper Mining	277.9	184.6	276.0	277.9H
2 Dairy Products	140.8	115.6	137.4	140.8
6 Department Stores	115.7	78.9	111.9	115.7H
5 Drugs-Eth. ('53 Cl.—100)	369.1	217.2	355.1	369.1H
6 Elec. Eqp. ('53 Cl.—100)	254.7	195.8	247.1	254.7H
2 Finance Companies	747.2	568 8	736.0	724.9
6 Food Brands	383.3	255.5	378.3	383.3H
3 Food Stores	258.7	182.2	253.3	251.4

(Nov. 14, 1936 Cl.—100)	High	Low	Oct. 31	Nov. 7
100 High Priced Stocks	257.0	189.7	252.0	257.0H
100 Low Priced Stocks	527.9	334.7	519.9	527.9H
5 Gold Mining	772.5	530.5	731.3	746.8
4 Investment Trusts	181.5	144.4	176.0	180.1
3 Liquor ('27 Cl.—100)	1513.4	913.4	1486.5	1486.5
8 Machinery	443.5	343.8	440.1	443.5
3 Mail Order	256.9	143.3	251.5	256.9H
4 Meat Packing	191.0	123.6	188.8	186.6
5 Metal Fabr. ('53 Cl.—100)	177.4	138.1	174.7	174.7
9 Metals, Miscellaneous	381.5	278.3	368.3	381.5
4 Paper	1161.7	841.8	1128.0	1161.7H
22 Petroleum	822.5	629.7	816.1	822.5
21 Public Utilities	320.4	258.9	315.2	320.4H
7 Railroad Equipment	82.7	59.2	82.7	82.7
20 Railroads	69.2	43.0	68.8	69.2H
3 Soft Drinks	554.9	445.6	554.9	550.5
12 Steel & Iron	376.3	249.3	366.7	376.3H
4 Sugar	141.3	102.8	128.4	127.5
2 Sulphur	828.5	543.4	780.1	828.5H
10 TV & Radio ('27 Cl.—100)	53.9	28.8	53.0	53.9H
5 Textiles	166.8	106.9	165.8	166.8H
3 Tires & Rubber	196.5	142.3	190.3	196.5
5 Tobacco	168.4	110.9	165.2	166.3
2 Variety Stores	313.9	239.3	305.1	313.9
17 Unclassif'd ('49 Cl.—100)	219.5	145.4	216.8	219.5H

H—New High for 1958. R—Revised.

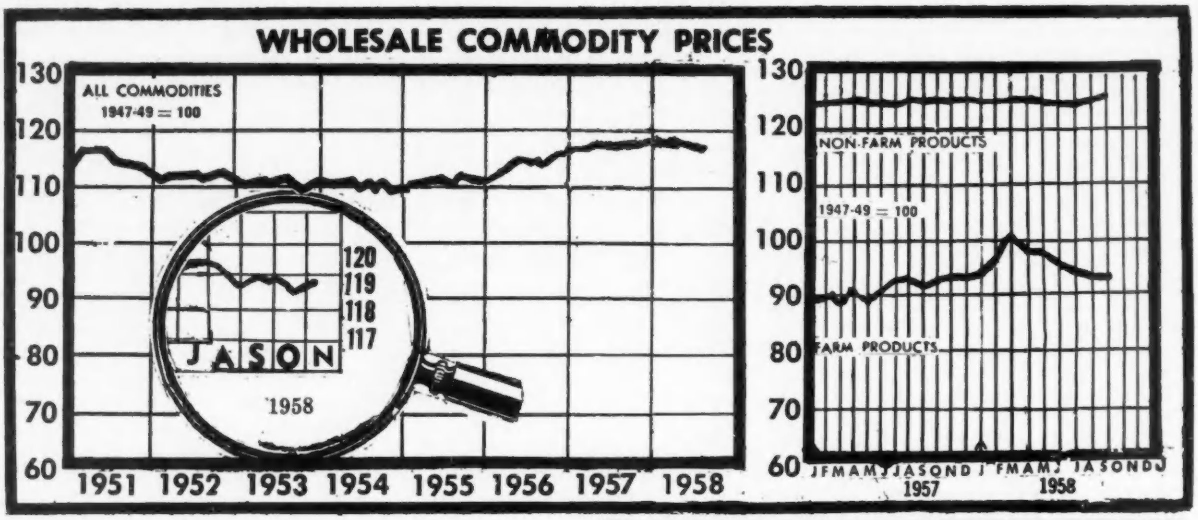
Trend of Commodities

SPOT MARKETS—Sensitive commodities picked up steam in the two weeks ending November 7. All the major components of the BLS daily index of 22 sensitive commodities were strong during the period and the composite index rose 1.3% to a new high since September 1957. Industrial raw materials continued to advance and this sector added 1.8%, with hides, rubber, copper scrap and steel scrap all moving higher.

The BLS comprehensive commodity index also showed recuperative powers, with the weekly index gaining 0.1% in the two weeks ending November 4. Farm and food prices were little changed but the index of all other commodities added 0.2%. The persistent strength in both sensitive commodities and the broad rank and file of goods suggests that demand is currently receiving a fillip as businessmen begin to build up their inventories.

FUTURES MARKETS—Prices of futures were almost unanimously higher in the two weeks ending November 7, as demand flooded into the market place. Grains, soybeans, cotton, wool tops, cocoa, coffee, hides, rubber, copper, zinc, lead and tin, all closed at higher levels. The Dow-Jones Commodity Futures Index rebounded sharply, advancing 2.76 points in the fortnight.

Wheat futures moved higher in the period under review, the May option advancing 2½ cents, to close at 198⅝, or 7⅝ cents above the low for the life of the option. Stronger export demand and government purchases of flour, encouraged buyers. Wheat supplies, however, are still huge, and it will require a continuation of heavy export demand and large entries of wheat into the loan, to maintain the upward trend of wheat prices.



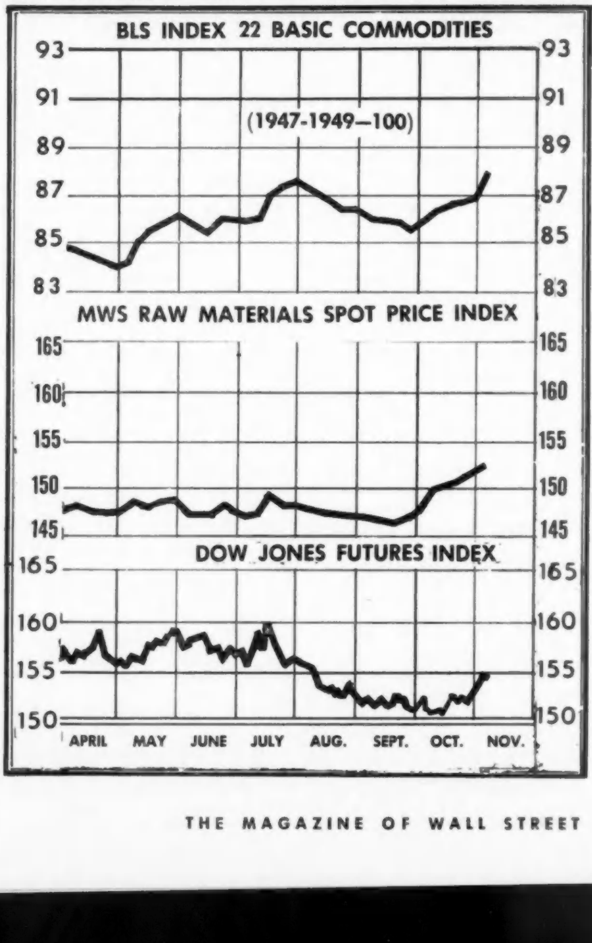
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 4	118.7	118.6	118.1	60.2
Farm Products	Nov. 4	91.4	91.3	91.9	51.0
Non-Farm Products	Nov. 4	126.2	126.0	125.9	67.0
22 Sensitive Commodities	Nov. 7	88.1	86.9	84.4	53.0
9 Foods	Nov. 7	83.7	83.1	83.4	46.5
13 Raw Ind'l. Materials	Nov. 7	91.1	89.5	85.0	58.3
5 Metals	Nov. 7	99.9	98.9	89.8	54.6
4 Textiles	Nov. 7	78.5	77.2	79.4	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

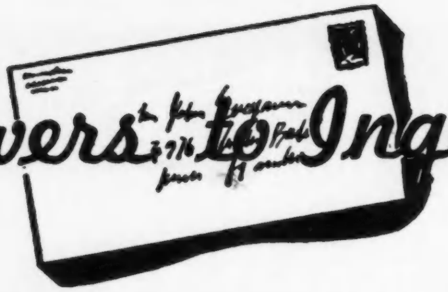
	1958	1957	1953	1951	1945	1941
High of Year	153.2	166.3	162.2	215.4	98.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.5	214.5	106.4	84.6
Low of Year	150.4	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



Answers to Inquiries



The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Food Machinery & Chemical

"I have been a subscriber to your magazine for the past 12 years and would appreciate receiving information in regard to Food Machinery & Chemical Corp. I am particularly interested in how this company has fared in the past year during the period of business recession."

M. S., Dayton, Ohio

Operations of Food Machinery & Chemical Corp. are well diversified as it manufactures agricultural and industrial chemicals and various labor-saving machinery such as farm equipment, food processing and packaging machinery, canning equipment, paper box machinery, etc. It also has substantial defense business. It also has a 50% nterest in Petro-Tex Chemical Corp., formed in 1955 after purchase of the Government's second largest butadiene (synthetic rubber) plant.

Sales and earnings of Food Machinery for the third quarter of this year established a record high over any corresponding quarter in the company's history. Sales for the quarter ended September 30, 1958, amounted to $84,339,774 compared with $75,884,711 for the corresponding quarter of 1957, an increase of 11%. For the 9 months ended September 30, 1958, sales totalled $241,065,529 and were slightly lower than sales of $241,894,567 in the same period of last year. Sales of commercial machinery, including income from leased equipment, were $89,634,048 or 6% lower than comparable sales for the same period in 1957; chemical sales of $104,821,695 were 3% lower, and sales of defense products and services totalled $46,609,786, an amount 24% hgher than comparable sales for the first 9 months last year.

Net income for the latest quarter was $4,171,277 compared with $3,109,795 for the third quarter of 1957, an increase of 34%. For the first 9 months of 1958, net income of $12,430,344 was slightly higher than net income of $12,250,684 for the corresponding period in 1957. Per share earnings for the third quarter of 1958, amounted to $1.21, and $3.60 for the 9 months, based on 3,383,338 common shares outstanding at September 30. Last year, per share earnings were 90 cents for the third quarter and $3.55 for the 9 months, on 3,372,996 shares outstanding at the end of that period.

Unfilled orders at September 30, 1958, for commercial machinery products amounted to $19,965,000, and were 8% lower than at September 30, 1957. Unfilled orders for defense products and services were $62,554,000, a 94% increase over one year ago. No backlog of chemical orders is maintained because these sales are made, to a large extent, under contracts for company's customers' periodic requirements.

The company announced in September a stock split consisting of a distribution to stockholders of record as of October 31, 1958, 1 additional share of common stock for each share of common stock then held.

A fourth quarter dividend of 30 cents per share on the common stock was declared payable on December 29, 1958, to holders of record as of the close of business December 3, 1958. This dividend will be paid on total shares to be outstanding after the 2-for-1 stock split, and represents an increase of 20% over the equivalent rate previously paid.

In view of the bottoming out of the business recession, operations for the fourth quarter appear favorable and the company presenly anticipates that sales for the full year of 1958 will exceed 1957 sales.

Demand for butadiene has improved in recent months and it appears that a year-end dividend can be paid by Petro-Tex Chemical Corp. (50% owned by the company). Food Machinery estimates that this, together with other favorable factors will enable profit for the year to be approximately the same as that reported for 1957.

Commercial Credit Company

"I have recently subscribed to your valued magazine and would like to receive recent earning data on Commercial Credit Co."

D.P., Richmond, Virginia

Commercial Credit Co. is one of the largest installment finance companies and its operations are diversified including wholesale and retail financing of consumer durables, mainly automobiles. Other subsidiaries write various fire and casualty insurance as well as credit insurance. Company also has manufacturing

(Please turn to page 214)

What Third Quarter 1958 Earnings Reports Reveal

(*Continued from page 174*)

National's nine month sales are still ahead of last year's even though military shipments have slipped about 20 percent. But with earnings of only 46¢ per share in the third quarter against 57¢ last year, nine month profits have dropped behind the 1957 earnings rate.

Undoubtedly the lower military shipments adversely affected earnings, but most of the poorer showing can be traced to higher outlays for research and development, and rapidly accelerating depreciation charges resulting from the company's large expansion program in recent years.

Under the circumstances, stockholders can view the slight drop in earnings with a casual eye, since the new products and facilities now being written off can be counted on to produce substantial earnings in the future. National Cash Register has been one of the market's prime growth stocks in recent years. To justify that reputation, sizeable research and developmental expenditures are not only expected, but desirable.

Studies in Contrast

Within the industrial groups that did very well in the third quarter there are some occasional sharp contrasts in the performances of particular companies. **Zenith,** which has been consistently recommended in this magazine continued to better its outstanding record in the electronics and television group. Sales advanced almost 20 percent over last year, and profit margins widened impressively to bring net income up to $3.60 per share compared with only $2.53 a year ago. Nine months earnings now stand at $6.60 per share aaginst $5.96 a year ago, and it seems certain that the company is headed for a record year.

Radio Corporation of America, on the other hand, was able to register only a modest sales gain for the quarter, while profit margins slipped under the year earlier figures. As a result earnings dipped to 40¢ per share from 52¢ in the comparable period last year. RCA has now fallen even further behind last year's mediocre earnings performance, and has demonstrated once again its difficulty in coordinating the various components of its vast organization into a consistently profitable pattern.

By way of comparison, it is interesting that Zenith scored heavily in the radio and television field, which is one of RCA's major areas, and in the field of military electronics.

One of the new up and coming organizations also oustripped RCA's performance. **Raytheon Manufacturing** witnessed a 30 per cent increase in sales to record its third successive excellent quarter this year. Earnings soared to 82¢ per share compared with only 34¢ a year ago, indicating that profit margins widened considerably on the company's large defense backlog. As recently as 1956. Raytheon earned only 22¢ for the entire year. Since divesting itself of television operations, however and concentrating solely on electronics and missile technology earnings have advanced sharply. Last year they climbed to $1.62, and this year's nine month results already tote up to $2.10. So far only stock dividends have been paid, but the initiation of some cash payments seems probable in the near future.

Another interesting contrast is the slight earnings improvement shown by **Pfizer (Chas.)** in a period that saw most of the pharmaceutical companies give some ground. Of the four in the accompanying table, **Schering, Merck** and **Abbott Labs** all fell behind last year's figures, but Pfizer, with earnings of $1.04 against $1.01 was able to continue the outstanding record that has allowed the company to raise its dividend in each of the last seven years. This year should be no exception, nor from present evidence, should 1959.

In recent months various secondary issues have been favored in the market, some without any visible reason. Others, however, have justified their play by turning in excellent earnings performances.

Performance of Recent Market Favorites

Brunswick-Balke, for example, reported third quarter sales of $78.2 million, almost double the figures for the same period of last year. The ever-growing popularity of bowling has led to a strong demand for the company's line of automatic pinspotter bowling alleys, and has rewarded Brunswick with third quarter earnings of $4.31 per share compared with only $2.47 a year ago. The recent minor stock split was considered disappointing by the market, and Brunswick reacted sharply to the news, but the company has demonstrated enviable earning power from its new product, indicating that future earnings, should the bowling fad continue, should remain above the company's historic levels.

Georgia-Pacific Corporation, one of the nation's largest plywood producers, also performed in line with the market's expectations in the third quarter. Good demand for plywood stemming from the present accelerated activity in housing, raised sales to $40.8 million from $34.5 million a year ago, but earnings rose only to 76¢ per share from 62¢ in the same period.

Significant in Georgia-Pacific's picture this year is the action management took recently to cut back production before the normal seasonal decline for its products. Last year, too much optimism led to excess production throughout the industry and prices gave ground. This will apparently not happen again. Near its all time high, and offering 8 percent in stock dividends in addition to $1.00 in cash, the stock has been a rewarding holding.

Signs of Comeback

The third quarter also offered the first real evidence that several important companies may be on

the comeback trail. **American Viscose,** an important producer of textile fibers earned 48¢ from its own operations in the period on sales of over $58 million. A year ago, $54 million in sales produced only 26¢ earnings. But of greater importance for Viscose is the fact that its jointly owned **Chemstrand** venture is now operating at full capacity and is building up earnings for Viscose.

In the last few year's the company's earnings have been nominal, but at current levels of operations Viscose should earn over $1.25 per share next year from its cellophane business, another $1.00 or more from rayon, and Chemstrand should contribute over $2.00 per share. In view of this projected earnings improvement, the stock's recent performance becomes understandable.

Working capital is still unsatisfactory, making it unlikely that dividends will be returned to their former level in the near future but some increase by mid-1959 is a possibility.

Another comeback star in this quarter has been **Celanese Corporation of America.** Sales advanced to almost $60 million from $50 million last year, and earnings picked up to 55¢ per share from 30¢ in the earlier period. Textile operations were only moderately better, but the company's chemical divisions are finally beginning to pay off. Interestingly enough, Celanese's plastics divisions were among the principal beneficiaries of the recent "hoop" craze, providing much of the raw material for the toy manufacturers. Full recovery for Celanese must wait better conditions in the textile industry, but it is encouraging that the company's diversification is finally producing some offsetting earnings.

Looking Ahead

Aside from the better returns reported by many companies, the quickening pace of business activity is promising improving earnings for many other companies.

Borg - Warner, for example, which has been beset by a host of difficulties since embarking on a broadscale diversification program suffered a further earnings decline in the third quarter. Nevertheless, sales of appliances are

currently running 20 percent ahead of last year for the company's Norge division, and the transmission division has received orders for its new non-skid "differential" from several auto manufacturers. It may still be too early for cheering.

Numerous others have also shown signs of resurging profitability. **Armstrong Cork** with 70¢ earnings compared with 43¢ a year ago, is a good example in the building supply field, while **Clark Equipment** although still behind last year's record is showing increasing signs that its worst days are back of them.

In summation, it is obvious from the record that corporate earnings have snapped back on the heels of a sharp business recovery. Moreover, many companies have demonstrated admirable abilities to earn their dividends under trying circumstances. Nevertheless, the business recovery already shows some signs of slowing down, and may flatten out before much of 1959 has elapsed. Under the circumstances, and in view of the exceptionally high level of stock prices at this time, it is the better part of valor to assume that most of the better earnings we have described and predicted here, have already been discounted. However we must reckon with a pressure of capital seeking investment in view of the forces for monetary inflation now at work. END

New Life For Appliances

(Continued from page 190)

Concentrating on those companies which rely exclusively on appliances for their earnings, one stands out currently above the rest by virtue of its outstanding record in recent years in the face of extremely adverse operating conditions throughout this industry. This is The Maytag Company.

Maytag has turned in an excellent operating record in recent years and has done so without a broad product line. Maytag probably offers the most complete line of automatic washers and dryers in the industry. Since 1951, the company has increased sales about 19% and earnings per share about 15%. This is particularly commendable when remembering the conditions under which the industry was operating. In the past decade, Maytag spent nearly $35 million to improve its manufacturing efficiencies, and expand facilities. Margins held up surprisingly well in recent years and have consistently been among the best in the industry. Perhaps the strongest testimony of its ambitious capital improvement and expansion program was its earning performance this year. In the quarter ended last September 30 earnings per share amounted to $1.53 compared with $1.10 in the similar quarter last year. For the year, earnings should easily clear $4, affording ample protection to the recently raised $2.80 dividend. Maytag's reputation for quality in the industry, and announced plan to enter the lucrative coin-operated laundry machine field, and a generally favorable near and long term outlook for the appliance industry, make this issue quite attractive.

Whirlpool Corporation is the result of a September, 1955 merger of Whirlpool company, the leading laundry equipment manufacturer, with Seeger Refrigerator and the range and air conditioning divisions of RCA. Early this year, the company acquired the facilities of Servel's gas refrigerator business, while in 1957, Birtman Electric, which has long manufactured vacuum cleaners for Sears Roebuck, was acquired. Whirlpool is thus the largest full-line manufacturer of the companies concentrating on home appliances. Sales are divided approximately 60% laundry equipment, 27% refrigeration and air conditioning, 2% vacuum cleaners and 11% ovens and others. Whirlpool is the sole supplier to Sears of its Kenmore and Coldspot appliances and refrigerators and freezers. The relationship of the two companies is very close, with Sears holding about 20% of the stock and having board representation. Whirlpool also gains a strong outlet from its tie-in with RCA, which also holds about 20% of the stock. The combination of these two outlets gives Whirlpool an unusually strong distributor organization. Whirlpool has just introduced its entry for the coin-operated laundry machine field. Earnings in the past few years

have been in a noticeable downtrend, and for the first nine months of this year were only $1.02 against $1.58 last year. The third quarter of this year did pick up nicely, though, to $0.46 from $0.27 in the second quarter. The worst has probably passed, now that extraordinary acquisition costs have been absorbed and these shares offer good speculative participation in the appliance industry.

American Motors Kelvinator Division has recently completed consolidating its appliance activities at one location and in a good appliance year, this source could add an estimated $0.80-$1.00 to earnings.

Philco expects to earn about $0.40 in the fourth quarter this year. Appliances account for about 25% of total sales, with its Bendix home laundry equipment contributing the major portion. **Admiral** earnings have bounced back sharply this year to $0.57 in the September quarter against $0.19 in the comparable 1957 period. Home appliances, including electric ranges, and refrigerators, air conditioners, home freezers and automatic dishwashers account for about a third of company sales and radio and TV the remainder.

Borg-Warner has greatly lessened its dependence on auto parts, and after losing the Ford transmission business at a loss of $0.50 per share, this outlet takes only about 30% of total sales. Earnings this year were affected by the poor air-conditioner season for its York Division, but recent reports place operations at the Norge Division at a high level. Earnings barely cover the $2 dividend, but the company has a strong cash position.

McGraw-Edison is mainly a supplier of electrical equipment to the utility industry. These sales account for about half of company total. Its consumer products are Toastmaster, Speed Queen Washers, and Eskimo fans. Speed Queen sales are understood to be up 40% over last year. Earnings should approach $2 this year, adequately covering the dividend, and next year could improve. This is a strong, well-managed company which appears to be on the verge of a healthy expansion in sales and earnings.

END

Borden Report Staggers Oil and Gas Pipeline Companies

(Cotinued from page 183)

engineering and construction of the project." This, again, is an evidence of the present concern of the Canadian people and its government to obtain Canadian participation in American companies or projects working in their country or on their resources.

Some New and Far Reaching Proposals

Among the more unique proposals put forward by the Borden commission is one to the effect that a member of the National Energy Board be appointed in due time to the Canadian section of the International Joint Commission. The IJC has before it matters chiefly dealing with boundary-crossing waters and as a result some of the most pressing problems between the United States and Canada involving the hydro-electric power from these waters have been aired before this commission. The sharing of power benefits on the mighty Columbia river in British Columbia and on the Yukon river will be decided in the years ahead, and Canada obviously intends to coordinate its national policy on hydro-power by putting an energy board man on its section of the IJC.

More immediately useful and unusual is the suggestion made with relation to the US Federal Power Commission. To quote the Borden report:

"For all practical purposes the United States of America is the sole existing market for any exportable surplus of (Canadian) natural gas and it is also the only likely market for any exportable surplus of crude oil. The recognition of these facts prompts the recommendation of the commission that the National Energy Board should study and appraise all matters relating to natural gas and crude oil not only in Canada and in the United States but elsewhere.

"We have also recommended... that reciprocal arrangements be worked out with the United States government for a commissioner of the Federal Power Commission to sit as an ad hoc observer, but without vote, when the National Energy Board is considering an application for a licence for the export of natural gas from Canada to the United States or for the import of natural gas into Canada; and for a member of the National Energy Board to sit as an ad hoc observer, but without vote, when the National Power Commission is considering the correlative application for the licence to import from or export

to Canada such natural gas."

It would, the report says, "expedite the decisions of the commission and of the board with respect to any import and export licence within their respective jurisdiction." When one considers that the Midwestern-Tennessee gas case has now been before the Federal Power Commission for three years, and that everyone is back where they started looking for a new pipeline proposition, any effort to speed the cumbersome process will be welcomed in gas and oil circles on both sides of the line.

Revoke or Suspend as Well as Grant Licences

The Canadian National Energy Board would be empowered, incidentally, to revoke or suspend licences as well as grant them. And in scrutinizing applicants it would give careful attention to any with "favored nation" and "escalator" clauses in field purchase contracts, as Westcoast Transmission appeared to have, because such clauses may become general in the industry and boost the cost to Canadian consumers. But when a licence is issued it will be for a suitable time in view of modern pipeline financing and constructing problems. The commission recommended that "an export licence may be granted for a period of not more than 25 years" and that it be clearly stated in every export licence that Canada is in no way obligated beyond the period specified in the licence.

Rate-Making Provisions

The rate-setting task in Canada is to be left squarely to the Board of Transport Commissioners, which already deals with rates in other fields of transport. Presently this board has been empowered to regulate rates on oil pipelines, but that power has never been exercised. It has no powers now in regard to gas rates. But *under the commission's plan, this board would have mandatory powers to regulate traffic, tolls or tariffs on gas oil pipelines and to review them every 24 months.*

The startling aspect of this to pipeline and financing experts here and in Canada was the recommendation that the rates must be based on "a method which ensures a fair rate of return on shareholders' equity." Some businessmen have commented since the report was issued that this would put an end to private capital support for pipelines in Canada; that it would leave it all up to government financing.

Earnings Cutback?

By using the "shareholders' equity" basis for setting rates, the Board of Transport Commissioners would, it is said, force earnings to be cut back sharply in pipeline companies. For the equity portion of the capital setup in most Canadian oil and gas pipeline companies is very small —possibly 20-35 per cent of the total. Unless the board's idea of a "fair rate of return" were quite high, the rates to be allowed from such a small equity base would be such that total income each year would be badly curtailed. As the Canadian Financial Post remarked, *"until Ottawa spells out what it considers a fair rate of return, a cloud of uncertainty will hang heavily over the entire future of gas and oil pipelines in Canada."*

New Oil Pipeline

Canada, which has protested to the United States strongly about the effect of the voluntary import quotas in reducing Canadian exports of crude oil, is still anxious to become self-sufficient for crude oil. Thus one of the biggest questions, left unanswered by the Borden commission was the proposal for building an oil pipeline from Alberta to Montreal. This plan, which would open eastern markets to Canadian oil producers in the west, is favored by independent companies but opposed by firms with foreign connections. (Most of the Montreal oil now comes from Venezuela via US companies.)

Thorough discussion of this expensive project has been left by the commission until a future report. But this first report did recognize the "importance to the oil industry as a whole and its close connection with the problem of export markets for Canadian crude oil." The failure of Canadian oil to maintain its exports to the Pacific coast area and the midwest, during the present US quota experiment, has prompted the drive for an all-Canadian source of supply.

But the proposal that the National Energy Board should licence all crude oil and petroleum product imports has raised the idea the commission may be laying the groundwork for a future recommendation urging extension of an oil pipeline to Montreal. Yet the high price of Canadian crude oil as compared to that which can be brought in from the Middle East and South America does not augur well for this pipeline project at this time.

In general this first report of the Borden Commission has drawn little direct comment from American gas and oil company officials. They are taking a watch-and-wait attitude. Those who have expressed opinions have said they are pleased that Canada is trying to establish a more uniform system to cover its natural gas exports. If the Borden report is acted upon, American companies will no longer be left in the precarious position of Midwestern Gas Transmission Company, with nothing but a letter from an exminister of trade and commerce to support their case.

In the Meantime

On the other hand, many industry observers here wonder just how long it will take for these recommendations to be put into effect. Until they are, or some alternate proposals are devised, all projects, like Midwestern and Northern Natural or Pacific Gas and Electric and Westcoast, will be left hanging in midair. There has been a barrage of criticism loosed in oil and gas circles in Canada, aimed principally at the proposed rate-making standard and at the lumping of oil and gas pipelines together for licencing purposes. While many Canadians will feel that the separation of rate making and licencing under the Board of Transport Commissioners and the National Energy Board will avoid some of the paralyzing delays of the Federal Power Commission and also ensure the Canadian consumer of a better break than his American counterpart, others claim the energy board will only be an empty shell with little real authority.

Canadian experts, who expect the present government to push

ahead with a National Energy Board because of the national desire to control the use of their storehouse of energy resources for Canadians first, also say that it will still take a Canadian cabinet decision as well as a National Energy Board okay to permit a really major export of Canadian gas to the United States. The days of big stock option deals and easy political commitments for export are over—the Borden commission was very rough on the big profit makers in Trans-Canada and Westcoast—but it will take some time to bring order to the vast, fast-changing Canadian energy picture. Yet in the end it will probably have to be conceeded that the major markets for these surpluses is the United States. END

Do Transactions By Insiders Have A Meaning?

(Continued from page 171)

phenomenal rise American Motors has recently shown, it remains to be seen whether it is worth any more and how far it has overdiscounted its prospects.

Now let us look, just briefly, at a few issues outside of the one hundred largest. Some unusual gyrations have been witnessed this year in Artloom Carpet which, after declining over a long period of years, was stimulated this summer by a management change and proposed diversification program, although without any improvement in earnings. After a complete absence of insider activity in this stock since September 1957, the following insider purchases were made beginning in April: April, 500 shares; May, 8600 shares; June, 9965; July, 1346; August, 3100; September, 400. This record was obviously significant, as the stock zoomed from around 5 to a high of 27⅝ on September 3rd. Within a week, however, it dropped back close to its current level around 13. Since the SEC Summaries showing the May and June purchases did not come out until the first week of July and of August respectively, this data would have been received too late to give an outside investor any advantage in terms of the present price. It may be noted that the SEC has recently charged the chairman of Artloom and an affiliated brokerage firm with manipulative practices.

Rayonier, although deflated far below its 1955-56 peak, is still the object of heavy insider sales. A total of 14,900 shares have been sold so far this year, with no offsetting purchases. This record does not seem to indicate particular executive confidence in the new "Tyrex" tire cord just announced.

Fruehauf Trailer is also still being sold by officers and directors, 6190 shares having been unloaded just since May (none earlier in the year), while a mere 100 shares were purchased. Incidentally, the Fruehauf debacle of 1956 might have been fairly well anticipated by the trend of insider transactions; it may be recalled that the stock climbed sharply to reach 35 in April of that year, but then dropped equally sharply to 22 before the end of the year and eventually as low as 9. At this period, insider sales were reported as follows: Dec., 1955, 3060 shares; Jan., 1956, 4500; Feb., 7780; March, 17,300 (including 10,000 by President Roy Fruehauf); April, 400; and May, 7275. Just to add a touch of confusion, however, 5215 shares were purchased in May, the bulk of them by Vice-President Harry Fruehauf. To come forward to the present time, the recent insider selling trend for this stock does not suggest confidence despite its considerable recovery.

Babcock & Wilcox (included within the one hundred largest) has shown no response to the general market boom this year, but discloses no record of insider transactions that would supply a hint as to managerial expectations.

In summary, substantial insider purchases or sales of individual issues can serve as a useful guide to outside investors, but the utility of such data is impaired both by the delays in reporting and the necessity of accumulating returns over a period of several months before they can be given any significance. Thus, the outsider relying largely upon the example of insiders is likely always to be late, even if he proves right. On the other hand, it seems doubtful whether the record of insider transactions is widely noted (even though published in some financial sources), and this evidence alone rarely seems to have strong effect upon the market for widely distributed issues. It could be, therefore, that systematic study of insider transactions would prove of practical value as a guide to investment policy.

The summary of aggregate insider transactions seems more significant. Although the bulge in executive purchases came only in July, long after the market had already demonstrated a strong upward trend, this display of insider confidence serves as a valuable confirming signal and seems to tell us that the extent of business recovery so far is no flash-in-the-pan. END

Utilities to Benefit From Rate Increases

(Continued from page 193)

initiated a rate increase of about $4.2 million last February, equivalent to about 60¢ a share; while the New York Commission has apparently not yet announced any final approval, it seems unlikely that any substantial modification will be made.

Niagara Mohawk Power suffered a sharp decline in earnings some time ago as a result of the loss of its big hydro-electric generating plant, which was largely destroyed as a result of a rockslide at the Falls. The company obtained one rate increase (about 34¢ a share, now fully reflected in earnings) and is seeking another. The second, which has met with some opposition from industrial companies, if granted might increase share earnings by about 42¢ a share, it is estimated.

There have been relatively few cases elsewhere in the east. **Public Service Electric & Gas** last April requested an increase in gas rates of $15 million, equivalent to about 51¢ a share. **Baltimore Gas & Electric** received increases in gas, electric and steam rates effective during May-August, the total amount approximating $9,254,000 which would be equivalent to about 63¢ a share. Decision was reserved on an additional allowance for storm damages and provision for a storm reserve.

Out in the Middle West there

have been a number of scattered cases. **Commonwealth Edison** received a rate increase of $26.4 million from the Illinois Commerce Commission, effective after June 18, equivalent to about 66¢ a share. The decision is the subject of several appeals including one by the City of Chicago, but it seems very unlikely that the increase would be overthrown, since the company was conservative in its request. Illinois Power was granted an increase in gas rates of about $1,164,000 effective August 18, presumably to offset higher costs from pipelines. Nearly a year ago the company had asked for electric-gas increases equal to about 40¢ a share.

In Ohio, **Cincinnati G. & E.** is seeking some small increases totaling about 14¢ a share. Its neighbor, **Cleveland Electric Illuminating**, asked for $5.5 million or 39¢ a share; a compromise agreement was recently reached with the City under which the company will obtain over half of the increase next February and the remainder a year later (effective until automatic review in September 1960). **Columbus & Southern Ohio Electric** is negotiating a new rate ordnance with the City of Columbus, but details are lacking.

In Michigan, **Consumers Power** last January requested an increase of $12.7 million equal to about 70¢ a share. **Wisconsin Electric Power** about a year ago requested an increase of $5.9 million or 52¢ a share, and in August this year was granted an increase of $3.8 million; the Commission allowed a return of only 6% on the rate base.

Minnesota Power & Light initiated rate increases last year on a staggered basis; there is no state commission having jurisdiction. It is not clear to what extent the later increases are reflected in recent share earnings, but it seems probable that additional increments remain to be reflected.

In Indiana where regulation is apt to be a little "difficult," **Indianapolis Power & Light** in July was granted an increase of $2.1 million or about 31¢ a share. There is no State Commission in Iowa, but the municipalities have "held back" in the past in granting rate increases to offset higher gas costs. **Iowa-Illinois Gas & Electric** in February obtained a modest adjustment in gas rates approximating 10¢ a share. Iowa Power & Light on August 1st this year raised its electric rates about 7%.

Kentucky Utilities in January obtained a rate increase of $2.8 million equivalent to 54¢ a share. **Union Electric** has requested increases aggregating about $7.8 million in Missouri, Illinois and Iowa, which if obtained, would be equivalent to about 36¢ a share, (a small increase was recently obtained by the Missouri subsidiary). **Empire District Electric** last March obtained an increase equal to about 33¢ a share **END**

United States on Road to Socialism —Or is it already there?

(Continued from page 177)

the huge new building which included the name "Harold L. Ickes" in its cornerstone was, said the disciples of the New Order, dedicated to the general welfare of the farmer; artificially inflated agricultural commodity prices were, so it was said, dedicated to the general welfare of the city dwellers.

Accelerated Spending

What of the cost? Federal spending in these areas, including grants-in-aid, rose from $2.9 billion in 1929 to $4.8 billion in 1932, and then doubled to $9.6 billion in 1940. The 1940 account included: relief, including unemployment relief, $1.9 billion; aid to agriculture, $1.4 billion; social security, interest on depression debt, and administration cost, $1 billion. This does not itemize flood control and conservation programs, folk dancing classes, resettlement projects, and such ventures as furniture factories. By 1940, federal spending had passed the total of state and city disbursements, and Washington was in the business of financing local building projects and handling local aid requirements for the first time, and permanently! The same was true of farm aid.

World War II

As must be in the interest of national survival, the war years erased geographic boundaries within the United States. Every force and facility was made responsible to plans made in Washington. V-J Day ended the war and raised the spectre of another depression — certain to come, Congress reasoned, if the economy was permitted to find its own level, possibly the level of 1930. By way of solution, the Employment Act of 1946 was passed, saying:

"The Congress declares that *it is the continuing policy and responsibility of the Federal Government* to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production, and purchasing power." (Italics supplied.)

Permanent Reponsibility Given Centralized Federal Government

This was the first statutory declaration of permanent responsibility on the part of the federal government to carry the load it had assumed a dozen years earlier on an emergency, limited basis. The legislative pipeline in the last Congress was clogged with bills proposing local projects, evidence that the policies of the 30's, reinforced by the "full employment act" live on.

Federal Aid Payments to Individuals, etc. within States

(OTHER THAN DIRECT GRANTS AND LOANS — 1957)

Agricultural Conservation Program	$223,292,173
Administration of Sugar Act Program	65,010,693
Feed supplies for drought stricken states	83,424,251
Soil Bank payments	495,570,820
State Marine Schools (cadet subsistence)	250,613
Air Force National Guard	168,135,024
National Guard	336,253,048
Arthritis and Metabolic Research Institute	8,221,928
Neurological and Blindness Institute	9,344,725
National Cancer Institute	18,790,481
Dental Research Institute	2,692,462
Allergy and Infectious Disease Institute	8,114,811
National Heart Institute	18,343,770
Mental Health Institute	7,405,815
H-E-W Division of Research Grants	7,992,083
Water and Air Pollution engineering	516,999
Hospital construction grants	1,094,234
H-E-W Training grants (Nat. Institutes of Health)	28,528,569
Fellowship awards (Nat. Institutes of Health)	5,413,606
National Cancer Institute Special Control grant	1,972,208
H-E-W Health Research facilities	2,482,840
Vocational Rehabilitation	5,482,507
Unemployment compensation, war veterans	53,210,349
Unemployment compensation, Federal employees	25,216,447
Atomic Energy Commission, fellowships etc.	3,943,551
National Science Foundation, research, fellowships	33,623,204
Veterans Adm. Autor for vets, benefits adjustment and vocational rehabilitation	787,952,527
Total grants, categories above	$2,404,259,738
Direct Payments by Federal Govt. to States (See table page 176)	$4,064,190,041
Combined categories	$6,468,449,779

Some of the programs begun 25 years ago have continued to exact from taxpayers everywhere, the money which provides a subsidy for residents of favored areas. The Tennessee Valley Authority is a good illustration, because it is the prototype of what may become a series of public power projects each adding to the inequity indorsed by centralized government.

TVA eased into the league of mammoth power producers in one of the outstanding jobs of legislative sugar-coating. Its beginnings were relatively modest: Wilson Dam was created as a World War I aid, at Muscle Shoals, Ala., and its purpose was production of fertilizer. The Tennessee Valley Authority was created by Congress, May 18, 1933, to develop an area of 41,000 square miles and 3 million population. It was authorized to build dams on the Tennessee River at federal government cost, under the supervision of a board of three members headed by David E. Lillienthal. The declared objectives were many, power production being but one. Others: to improve navigation, to establish flood control projects, to assist in soil and forest conservation, to promote agricultural and industrial expansion, and to conduct economic and social surveys in the area. Presidents Coolidge and Hoover, in turn, had vetoed bills to set up an operation of much less magnitude.

What came out of the 1933 bill is a system comprising 27 dams, and plants with production capacity of 2 million kilowatts. The power is sold in a vast service area which TVA constantly seeks authority to expand. It is inexpensive power, to the consumers. It should be, for there are no taxes paid, no financing charges. The rate is low to the user because every taxpayer in the country pays part of the cost of serving him.

Expansion of the Muscle Shoals development into a regional power production and distribution center was the idea of the late Senator George Norris, a republican. As noted above, it was thwarted by two republican presidents — Coolidge and Hoover. It became a fact under a democrat, Franklin D. Roosevelt. But the Eisenhower Administration evidently has taken it under its wing, and is sheltering it from the "horror" of competition.

Jolt to Private Utilities

Privately-owned utility companies who are paying their own way recently received two rude jolts from GOP-controlled regulatory offices. They had joined together in a campaign of institutional advertising, pointing up the advantages of their system, and reminding the public *that TVA and the like are inequitable operations which saddle overhead on the general public, fail to pay taxes and, naturally, present a distorted rate picture.*

The companies claimed an offset from income tax liability, covering the amounts they had contributed to ECAP (Electric Companies Advertising Program) as a necessary and "ordinary expense." But the Internal Revenue Service said this cannot be done: the effort was in the nature of "lobbying" congress on the public vs. private power issue. Then the Federal Power Commission followed the precedent set and declared that this campaign was not a cost of doing business, and therefore could not be allowed as a legitimate expense for purposes of determining fair rates. This, remember, is 1958 under a Businessman's Administration; it isn't 1933 with the New Deal riding high. It's today. Now.

The above clearly shows the trend toward centralized government is continuing in full force—that many aspects of Socialism are already here—and we do not foresee any abatement of this trend now that the democrats have swept into full control of the House and the Senate and have strengthened their position at the gubernatorial level. The rise in the stock market on the Wednesday following Election clearly indicated belief in intensified spending and an inflationary outlook. It remains to be seen, however, whether the progressive conservative branch of the democratic party, led by Lyndon Johnson and Sam Rayburn among others, will be able to hold the demagogues in line. END

Book Reviews

Aku-Aku - The Secret of Easter Island

By THOR HEYERDAHL

Eight years after his famed *Kon-Tiki* raft expedition, Thor Heyerdahl returned to the Southeast Pacific to solve the mysteries of Easter Island. Who carved the giant stone statues that have puzzled experts for over a century? When? How were these fifty-ton statues transported by a primitive race who presumably possessed no mechanical skills, miles from the quarry where they originated? What toppled them over, so that they now lie strewn along the heights and plains of this tiny island in the Pacific?

Thor Heyerdahl soon discovered that the island's mysteries went far beyond its famous statues. For in dozens of secret caves scattered over the island—some of them refuges from some unknown, long-departed invader—lay other objects: carving of skulls and strange beasts and human masks, and the *rongo-rongo* boards with their inscriptions which had long defied deciphering, each bearing clues to the skills and customs of an earlier people.

Before the author's expedition no scientist had been able to penetrate the natives' all-powerful taboos. But "Señor Kon-Tiki's" fame had preceeded him: to the superstition-ridden natives he was a mighty ancestor returned from the days of their island's greatness. Month by month the legend of his personal "guardian spirit"–his *aku-aku* —grew, until at last he gained the natives' confidence and they revealed to him the entrances to their family caves.

Bit by bit the pieces of the puzzle fall into place: the origin of the statues, the secrets of the caves, the story of the ancient stone-carving "long-ears" with their pale skin and red hair, the cannibalism and the civil wars that the islanders endured. Filled with color and excitement, the book transports you into the midst of a human drama of extraordinary interest. You follow Thor Heyerdahl's hazardous explorations across tortuous cliffs and into the bowels of the earth, through passages hardly large enough to admit a human body . . . and you meet the strange, suspicious natives who inherited the closely guarded secrets of their ancestors.

AKU-AKU is, in short, a modern scientific detective story of first rank, and an adventure as enthralling as any work of fiction. Already it has won acclaim in Norway, Sweden, Denmark, Finland, and Great Britain.

Rand McNally & Company $6.95

Manufacturing in the St. Lawrence Area of New York State

By JOHN H. THOMPSON and JAMES M. JENNINGS

Industrial expansion of northern New York State has been one of the many topics of speculation in connection with the nearly completed St. Lawrence Seaway and Power Projects. With improvement in two important industrial location factors—water transportation and hydroelectric energy –how will manufacturing in this Area be affected?

This volume analyzes the Area's manufacturing potential by examining locational problems, historical development, livelihood structure, and the current distribution of manufacturing establishments and employment. The authors then iterpret these findings in answering questions concerning the future. How much industrial expansion can be expected? What kinds of factories are most likely to be attracted and where will they be located? How much will various communities profit?

After briefly outlining the method used in conducting this study, the introduction summarizes its conclusions. The authors warn against extravagant expectations, but predict that nearly a 50 per cent gain in manufacturing employment can be anticipated by 1970.

The St. Lawrence Area of New York State, inclusive of Jefferson, St. Lawrence, and Franklin counties, is shown on the end paper map. The text is supplemented by 15 maps, 32 tables, an inventory of manufacturers in the Area, questionnaire forms used in conducting the study, and an extensive bibliography.

Syracuse Univ. Press $4.00

A History of The United Nations Charter

By RUTH B. RUSSELL

This is an account of a critical period in international diplomacy. It is the story of the effort between 1940 and 1945 to fashion a world organization to keep the future peace.

The book deals with the Atlantic Charter and the conferences at Moscow, Cairo, Teheran, Dumbarton Oaks and San Francisco that finally led to the United Nations Charter. It shows how the strategic decisions leading to military victory simultaneously helped to determine the conditions of postwar settlement, and it foreshadows some of the frustrations and conflicts of the decade that followed.

The signing of the Charter at San Francisco was also a landmark in the history of United States foreign policy, symbolizing the change from isolationism to international collaboration. American thinking about the postwar world in terms of international organization began even before the United States entered the Second World War. By 1945, the policy of official neutrality had long since given way to active leadership in promoting the United Nations Conference.

This book describes not only what happened, but how it happened. It provides real insight into the process of developing a major segment of foreign policy at home, and of negotiating the acceptance of that policy by other countries.

Parts of the story have been told in memoirs and histories bearing on related questions, but there was no definitive history of the Charter in the content of American foreign policy until the completion of this volume, which draws heavily on Department of State records that have not been made public before. The co-operation of the Department made it possible to give a detailed account of the part played by the United States Government. The materials made available show how the problems of postwar organization appeared to American leaders at the time, how the objectives of foreign governments were interpreted by them, and how they sought to resolve the issues confronting them.

Ruth B. Russell of the Brookings staff began work on this study more than five years ago, building on research started by the late Dr. Leo Pasvolsky. Dr. Pasvolsky, former Director of International Studies at Brookings, was active in drafting the American proposals for the Charter during his wartime service in the Department of State, where Miss Russell was one of his assistants. In completing her study, with the aid of Jeannette E. Muther, Miss Russell has had the benefit of suggestions and criticisms from many people who participate in the planning and negotiating of the Charter.

This volume is another in a series that constitute the most comprehensive independent appraisal of the United Nations from the American point of view.

The Brookings Institution $10.00

The Ruling Passion

By GEORGE DE MARE

To every businessman who has ever faced the dilemma of choosing between his career and his family.

To every woman who has watched her husband drawn away from her by the maelstrom that is the world of business.

To every subordinate who has ever felt that he should be sitting in his boss's chair.

To every wife who has ever wondered if she could forgive her husband if there was another woman.

To every man past forty who still remembers (can still remember – still cannot forget) the first woman (girl) he ever loved.

To every secretary who has ever spied that special glint in her boss's eye that has nothing to do with business.

To every executive who has been troubled as to whether he will be able to let go of the reins gracefully when his time comes.

To every woman who has wondered what it would be like to defy the moral conventions of society and live on the other side of the double standard.

To you this book is dedicated and recommended. In it you will meet other such men and women and be fascinated by them and the world of Big Business which they inhabit.

Putnam $3.95

Forecast Stocks Are Among 1958 Market Leaders

In June we launched a new investment campaign with recommendations of one aviation stock and two rails. These three stocks have since advanced 33⅝ points to score appreciation of 30.3%, outstripping the rise in the general market. We except further good profits in these issues.

But quite aside from these profitable selections, some of the stocks in our open position since the start of 1958 have been *outstanding performers.* For example, our Reynolds Tobacco B, which we advised all subscribers to buy last year at 55⅝, has recently topped 90—on news of proposed merger with Warner-Lambert—and the boost in the dividend.

American Chicle which we recommended at 43¾ reached 107 after announcement November 5th, of proposed 2-for-1 stock split plus the increased extra dividend.

International Telephone & Telegraph just hit a peak of 55⅞ after being awarded a huge Air Force contract. This stock closed 1957 at 29⅜, so it has advanced over 83% this year.

Among other Forecast stocks whose appreciation in 1958 has been more than double that of the market is Southern Railway which began the year at 30½ and recently hit a high of 55, also up 83%.

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As I See It!

(Continued from page 165)

it was submitted, they cannot map out their projects — and their international pacts!" The latter suggestion comes close to blackmail, but there it was.

In the face of a $12 billion deficit in the current fiscal year, the virtual certainty that the debt ceiling must again be raised (or abandoned), and the ever-present hazard of higher taxes, it would be interesting to learn just where the President expects to obtain the long-term, major commitment he pledged at the Colombo Plan meeting. True, Ike made it clear that Congress must first approve and other nations in the "have" class must unite in contribution, if the projected Fund is to come close to matching the demands of the job. But what of it? So far they have pleaded poverty and let Uncle Sam carry the load.

The job is colossal. In some situations, it involves the "paper" proposal of vaulting over hundreds of years to bring a 20th Century mode of living to countries whose inhabitants may prefer the old to the new. Some of them have seen "civilization" at work in the Western World and may be pardoned for viewing the results with misgivings.

The President's altruistic program involves a large measure of private investment to update Asian countries. To bring this about, great material inducements would be required in the way of tax benefits, cost-sharing, and guarantees. These must obtain Congressional indorsement if they are to be offered. The new Congress is more likely to proceed on the adage that aid begins at home, than it is to further the broader concept that the way to win "friends" is by scattering the Yankee deficit dollar in all corners of the globe.

END

Correction:

In the table on Finance Companies on page 31 of issue of October 11, 1958, the earnings of Pacific Finance Corp. for the first six months of 1958 should have been $2.41 per share instead of $1.48.

For Profit And Income

(Continued from page 195)

40 cents, while Brunswick's board authorized a four for three stock split.

Aircraft

Among favorable interim statements for the September quarter was one by Martin showing a decided upturn in net income to $3.7 million from $2.1 million a year earlier. On a share basis, earnings rose to $1.27 from 71 cents in the three months. For the first nine months sales and income increased to $356 million from $317.5 million, while net profit advanced to $2.50 from $2.22 a share. Improvement, attributed in part to a change in accounting procedure, is expected to continue through the fourth quarter.

As we noted in our issue of November 8, in the article "The 10 Biggest Defense Suppliers," Glenn Martin is well-entrenched in the missile field. For the long-term, it has several space vehicles under development and heads a team of contractors with a design contract for the "Dyna-Soar" glide bomber. The company should remain one of the top suppliers to the military. END

Answers to Inquiries

(Continued from page 202)

subsidiaries which produce machinery, pipe fittings, etc.

Commercial Credit Co. and its subsidiaries in its latest unaudited interim report showed that consolidated net income from operations for the nine months ended September 30, 1958, was $19,-996,790 or $3.95 per share compared with $20,532,687 or $4.07 per share for the relative period of 1957, both computed on the shares outstanding at the end of the respective periods.

The combined net earnings of the finance and insurance subsidiaries for the 9 months of 1958 showed an increase of $962,701, when compared with the same period of 1957.

Therefore the decline of $535,897 in the overall earnings of the company for the relative periods was accounted for entirely in a falling-off of earnings

of the manufacturing companies. These companies had earnings of $1,265,230 for the 9 months ended September 30, 1958, compared with $2,763,828 for the like period in 1957, or a decline of $1,498,598.

Consolidated net income for the third quarter of 1958 was $6,645,781 or $1.31 per share compared with $7,113,655 or $1.41 per share for the third quarter of 1957. Consolidated gross income for the period ended September 30, 1958 was $125,678,430 compared with $128,818,440 for the same period of 1957. Consolidated net income before interest and discount charges and before taxes for the period ended September 30, 1958, was $70,103,964 compared with $73,011,051 for the same period of 1957. Interest and discount charges were $32,483,223 compared with $34,675,828 for the respective periods.

The volume of finance receivables acquired by the company's finance subsidiaries for the 9 months of 1958 was $2,335,944,420 compared with $2,909,943,928 in 1957. Outstanding receivables of the finance companies for the period ended September 30, 1958, totalled $1,319,907,320 compared with $1,435,791,720 outstanding on September 30, 1957. Of these outstanding receivables $674,445,850 were motor retail receivables compared with $761,589,967 a year earlier. Retail receivables outstanding of all kinds at September 30, 1958, were $952,345,162 compared with $997,435,317 a year ago or a decline of 4.53%. While the amount of cash employed in finance companies is off somewhat due to the lower level of automobile production, it is felt that there should be an increase in the last quarter. This fact, coupled with the diversification operations made in the last several years, should result in net earnings for the year 1958 being comparable with those for 1957.

Net income of insurance subsidiaries was $6,980,369 for the 9 months ended September 30, 1958, compared with $4,740,648 for the same period of 1957. The improved operations of the insurance subsidiaries resulted in part from the rate increases on fire, theft and collusion insurance granted in some of the states and to the continued successful operation of the life insurance subsidiaries.

Net sales of the manufacturing companies for the 9 months ended September 30, 1958, were $94,799,574 compared with $99,825,081. Every indication points to the fact that with the general economy now trending upward, the earnings of the manufacturing companies should improve during the last quarter of this year.

Reserves for unearned income on finance receivables, for losses on receivables and for unearned premiums of the insurance companies on September 30, 1958, were $125,148,737 compared with $133,151,481 on September 30, 1957.

Quarterly dividends of 70 cents per share have been paid this year, the same as in 1957.

Columbian Carbon Co.

Please furnish recent earnings of Columbian Carbon Company and indicate any change in recent earning trend.

N. B. Saginaw, Michigan

Columbian Carbon Company is the leading domestic producer of carbon black and related products. It also sells natural gas under long-term contracts. It has large acreage in several states and has substantial Canadian interests.

Sales and other income of Columbian Carbon Company for the first nine months of 1958 amounted to $47,713.000 compared with $52,913,000 in the same period last year.

Net earnings amounted to $2,344,000 equal to $1.46 per share compared with $3,396,000 equal to $2.11 per share for the like period of 1957. In addition to the 1958 net earnings, a special credit of $394,000 or 24 cents per share was realized after taxes from the sale of certain properties.

Net earnings for the third quarter of this year substantially exceeded those of the third quarter of last year and more than doubled those of the second quarter of this year. This recent reversal in trend reflected many factors including improved demand, cost reduction measures and lower write-offs for various items. Consecutive dividends have been paid since 1916 and current quarterly rate is 60 cents per share. END

Copper, Lead-Zinc and Aluminum

(Continued from page 187)

prop to the market through tapering off "puts" to the Government, as contracts were concluded.

This was by no means all that clouded the usually bright picture for aluminum. Not only was productive capacity ample, and more than ample for industrial needs, but substantial additional capacity was about to be brought on stream during the year. New facilities were scheduled for the three principal domestic producers, and new two entrants, Ormet and Harvey would begin to pour aluminum by mid-year. In brief, the first half of 1958 saw primary domestic capacity increased by 187,500 tons which brought it up to over 2 million tons a year, with another 578,000 tons under construction.

With commendable caution, the aluminum producers began to curtail, by shutting down their higher cost plants, and gradually reducing output to about 70% of capacity. By June, production was down to a monthly level of 115,000 tons, the lowest for several years. By comparison, the monthly rate of output in 1956 at peak production was 140,000 tons.

Russia Undercutting Market

In April the industry had to take another blow. Russia began to dump aluminum on the British and Continental markets, at prices substantially less than quoted by Canadian and American producers. To meet this competition, Aluminum Co. of Canada cut its price 2 cents a pound, and this was immediately followed by a similar cut by domestic producers. This was a bitter reversal of pricing policy by the industry, which for years had pridefully pointed to its record of stable prices in contrast with the erratic course shown by other non-ferrous metals.

(Please turn to page 216)

Companies With Important Holdings In Natural Resources Abroad

See Our Next Issue

The menace of Russian aluminum competition in world markets is very real. Production in 1957 from that country is estimated at 550,000 tons or nearly the same as Canada and it is believed this figure can be increased 50%. This evidence of the Russian economic offensive was scarcely felt until the fourth quarter of 1957 when exports suddenly trebled, then rose to a 50,000 ton a year rate. The Soviets have declared they will sell below posted prices to anyone who will take their metal. In their economy costs mean little and profits less. It is well known that the price of aluminum within the Iron Curtain countries is far higher than the 21¼ cent price the same metal is offered at on the Continent to European fabricators. No attempt has been made yet to export primary metal into this country from Russia but indirectly such competition exists, as low priced Russian aluminum is fabricated abroad and such fabricated products have been arriving here in considerable volume, sufficient to have caused spirited agitation in Washington for some sort of protection or at least some controls limiting imports.

Such agitation has met a cold reception in Washington and indeed it is difficult to see how it could be otherwise. Aluminum already enjoys a tariff of 1¼ cents a pound and any increase would be a direct blow to Canada, our chief and almost our only supplier of primary metal. Aluminum extruders have appeared at Washington and emphatically opposed any tariff increase and it is certain that a higher tariff would bring the bitterest protest and reprisal from across the border. Aluminum Ltd. depends to a much greater extent than any domestic producer on its export markets and the United States is second only to the United Kingdom in importance.

The effect of the 2 cent price reduction in April could not fail to have a serious effect on profits of the aluminum producers. The total production capacity of U. S. and Canada is approximately 2.9 million tons per year. If all facilities were in use this would evidently mean a net loss of income before tax of about $116 million on an annual basis or perhaps $58 million after tax. *Capitalized at fifteen times earnings this would represent a theoretical loss in investment value of $800 million for aluminum stocks.*

In August a wage increase for aluminum workers was put into effect that followed the same general line as the steel settlement. Immediately the industry raised the price of metal by 0.7 cents a pound, from 22 to 22.7 cents for pig. It is declared that this increase did not entirely compensate for the full extent of the wage hike which amounted to 1 to 1½ cents per pound for primary metal. Thus the higher price did little more than recover 50 to 60% of the higher labor cost and did nothing to regain the 2 cents price cut last April.

This array of disturbing developments might have been expected to dampen if not dispel investors' ardor for the aluminum stocks. On the contrary it did nothing of the kind and in the bull market of 1958 they have remained prominent among the speculative leaders and are presently selling at very high price earning ratios based on estimates for the current year at least. These indicate for 1958 about $2.25 for Alcoa, 90 cents for Alcan, $2.80 for Reynolds and $1.20 for Kaiser. At recent price peaks such estimated earnings were capitalized at 25 to 40 times, high for even acknowledged growth stocks.

Reason for investor favor of the aluminum stocks rests primary on the astonishing rate of growth of the industry in the last decade which is expected to continue. In the years 1947-9, the base years for most statistical calculations, the average annual production was only 600,000 tons. Even at 75 percent capacity 1958 production would approximate 1,500,000 tons and it may be more than this because of the recent pickup in operations which indicates about 80% capacity for the fourth quarter. But accepting the lower figure this would indicate a 150% production increase in eight years, and an index for production of 250. This surpasses by far the increase for any other major metal and compares with a rise in the Federal Reserve Production Index of only 25% since 1949.

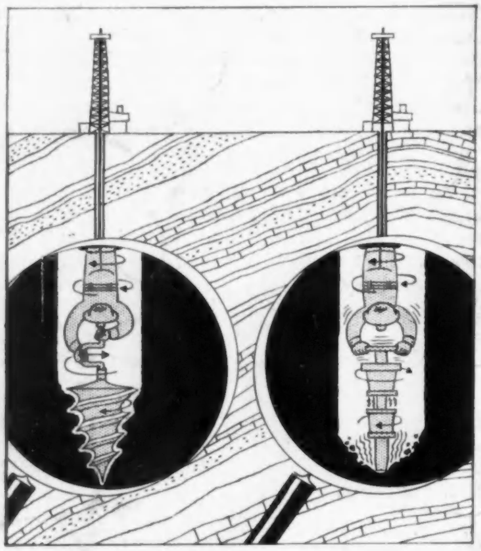
New Use For Aluminum

A further reason for investor confidence is the much publicized statement that a major breakthrough is on the way for aluminum engines in 1960 model cars. The average 1958 car used 58 pounds of aluminum and this amount is expected to increase steadily for molding and trim areas, replacing chrome and stainless steel — so say enthusiasts. An all-aluminum engine would call for 130 pounds of metal or perhaps 180 pounds including other uses in car construction. With a 5 million car year some 450,000 tons of aluminum would go to the auto industry or over 22% of present productive capacity.

Without doubt the highly effective promotional and selling efforts of the aluminum producers have done wonders in inculcating investor confidence. There is scarcely an industrial field in which new and interesting use of the metal is not possible and vigorously proclaimed. This is all to the good but some note of restraint could well be voiced. It will take some years for the industry to employ profitably all the capacity now installed and on the way, and 1959 may also prove a difficult year as heavy, — although non-recurrent expenses will be met in startup for new plants, with heavier depreciation and amortization charges. Secondary production from scrap will come on the market in larger quantities and must be reckoned with. There is little doubt that the long term picture for aluminum is probably the brightest of all the metals but how much the present market for aluminum shares has generously discounted this situation, is at least debatable. END

Now you can do this two miles down!

Percussion hammer developed by Gulf drills up to four times faster!



The common method of drilling is shown at left with Gulf's new hammer drill at right. It is expected that drilling speed will be increased up to 4 times when the new method is put into use.

The problems encountered in the search for oil are many and various and one of the most frustrating is this: *How can you drill straight down and fast?*

Now, since you can't send a man down with a percussion drill, what's the next best thing? To send the drill down, of course. And Gulf scientists, at the Research Center in Harmarville, Pa., have devised a way to do just that. It took a long, long time . . . but they did it.

First, they developed the drill itself. It consists of a reciprocating piston and cylinder arrangement for delivering percussion blows against friable (or brittle) rock encountered in tough formations.

The device is encased in a cylinder about 19 feet long which hangs at the end of the drill string, with a conventional roller bit fastened directly below. As the drilling mud circulates through the mechanism, it drives a 200-pound hammer, delivering 600 or more strokes a minute, on the attached bit.

Result: Drilling speeds may double or *quadruple* in the hardest oil field formations. Not only that, but straight-line drilling is now possible since the bit will no longer veer off slanting rock formations. This solves the costly problem of the crooked hole.

So, here it is. A tool designed specifically for hard-rock drilling, which is expected to provide savings in money, time, and maintenance. The new drill is about ready for release and arrangements are now under way to make it available to the industry.

One more step in petroleum progress—one more scientific advance with an ultimate public benefit. This is, indeed, the industry that looks to the future.

Gulf Oil Corporation, GULF General Offices, Pittsburgh, Pa.